Public Utilities

FORTNIGHTLY

Volume XLV No. 11 May 25, 1950

PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

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Public Utilities
FORTNIGHTLY

VOLUME XLV MAY 25, 1950 NUMBER 11

ARTICLES

FEATURE SECTIONS

PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

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THOSE who were born and raised, so to speak, with the idea that a "lobbyist" was some sort of questionable character, engaged in influencing legislation—often for ulterior motives—might well have been surprised at a recent informal comment by Representative Buchanan (Democrat, Pennsylvania). Buchanan is the chairman of the special committee created by the House of Representatives to investigate lobbying activity and the need, if any, for additional legislation to regulate the same.

CHAIRMAN Buchanan takes the practical view that lobbyists are not only necessary, but quite helpful in keeping Congress informed about the effect of legislation affecting the interest represented by the lobbyists. In other words, the aim of the committee is not to suppress the lobbyist, *per se,* but to determine whether he is surrounded with sufficient safeguards, such as registration and necessary public information on lobby operations. The inference is that the main problem is one of shedding light on surreptitious lobbying operations by those who conceal their true objectives. In other words, those known

FRANK T. BOW

CLYDE OLIN FISHER

in the trade as "cloak and dagger" operators.

YET even the problem of placing an honest label on who is and who is not a lobbyist is not so simple as it might appear at first blush. Public officials with a sworn duty to carry out their departmental functions find no great difficulty in reconciling that duty with arguments before congressional committees for more funds or greater powers. But when a spokesman for an opposing interest shows up and objects to Congress granting such funds, is there any logic in calling one a lobbyist and the other a public official performing his sworn duty? Any such test would lead towards the cynical standard used in a politician's definition of propaganda; to wit, "the other fellow's argument."

NOR does a test, based on the amount of money spent, solve the problem of classification—since many of the most effective lobbies are conducted by volunteer zealots. Any Congressman who has ever listened to the animal-loving opponents of vivisection will readily agree. Requiring the paid lobbyist to sign a register would seem, therefore, only part

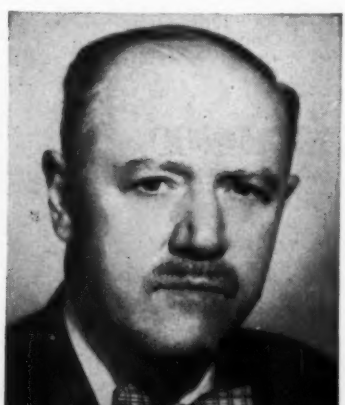
of the answer—especially when we consider Republican claims that the biggest and most effective lobbyists in Washington today are Federal officials themselves.

THE opening article in this issue, entitled "How about Federal Propaganda and Lobbying?" is an analysis of this puzzling question of lobby regulation by both government and private interest. The author, FRANK T. BOW, is well qualified by reason of his special background as general counsel of the House Expenditures Subcommittee on Publicity and Propaganda during the 80th Congress.

BORN in Canton, Ohio, MR. BOW was educated at the University Preparatory School (Cleveland), Culver Military Academy, Ohio Northern University, and Columbia University (postgraduate). Admitted to the Ohio bar in 1923, MR. BOW practiced privately and became the assistant attorney general of Ohio in 1929. He has also acted as consultant to the Ohio Public Utilities Commission.

* * * *

THE question of whether utility companies can or should avail themselves of the so-called "lease-back" arrangement, so as to obtain the use of properties built by institutional investors, is the subject of the article beginning on page 673 by ERNEST R. ABRAMS, New York city business author.



W. F. STANLEY

WHY is it a certain market quotation of "rights" to buy newly issued utility shares means so little (with relation to the open market value of such securities) that share earners sometimes do not bother to exercise such rights? W. F. STANLEY, vice president of Southwestern Public Service Company, in an article beginning on page 678, has gone into this question. His account raises a worth-while point for public utility management desirous of keeping investor relations in a healthy condition.

MR. STANLEY has over a quarter of a century's experience with problems of corporate accounting and finance. From 1931 to 1939 he was associated with a prominent firm of public utility engineers and managers. During 1939 he became secretary and treasurer of General Public Utilities, Inc., predecessor of Southwestern Public Service Company, of which he is now an officer. He was active in connection with the corporate plans of integration which set up this organization system as it is today.

* * * *

ANOTHER current question which is worrying some public utility managements is the problem presented in the need for replacing retired plant at high-price levels, although depreciation reserves are being accrued at original low-cost levels. CLYDE OLIN FISHER, former chairman of the Connecticut Public Utilities Commission, discusses the economic factors involved in the relationship between changing price levels and the bases for accruing depreciation reserves. Born in North Carolina, DR. FISHER was educated at Duke University (AB, '11), Columbia University (AM, '16), and Cornell University (PhD, '19). He has taught extensively at various colleges and is now professor of economics at Wesleyan University, Middletown, Connecticut.

THE next number of this magazine will be out June 8th.

The Editors

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Coming IN THE NEXT ISSUE

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THE ELECTRIC COMPANIES HAVE A MUCH BIGGER JOB TO DO

Elmer L. Lindseth, president of the Edison Electric Institute, as well as head of the Cleveland Electric Illuminating Company, reviews their performance during the first five postwar years and outlines the theme of the industry's plans.

FAIR PLAY FOR THE STATE COMMISSIONS

Replying to unwarranted criticism, Commissioner Harry M. Miller of the Ohio Public Utilities Commission, who is also president of the National Association of Railroad and Utilities Commissioners, issues a hard-hitting challenge for fair play in judgments about the success of commission regulation.

THE ELECTRIC UTILITIES LOOK AHEAD

A veteran executive, H. P. Liversidge, chairman of the board of Philadelphia Electric Company, outlines the principal danger which confronts the electric industry in the years ahead. It is not a matter of special plea but broad public interest.

THE PUBLIC INFORMATION PROGRAM

A movement started by a group of operating executives to stress the "grass-roots" approach in carrying the industry's message to its own customers at the local level. James W. Parker, president of Detroit Edison Company, a leading spirit in this movement, explains its purposes and objectives.

THE WELFARE STATE IN MOTION

Has the public come to look upon the status of "public utility" as a mere prelude to eventual conversion to public ownership? Dr. Emerson P. Schmidt, director, economic research department, U. S. Chamber of Commerce, discusses this threat.

WHAT'S BEING DONE ABOUT RIGHTS FOR UTILITY STOCKS?

Vice President Franklin T. McClintock of Harriman Ripley & Co., Inc., gives us a business examination of preëmptive subscription rights in utility equity financing. The problems and pitfalls are carefully explored.

SECURITY ON THE HOME FRONT

John Edgar Hoover, famous head of the "G-men," gives us a special message on mobilization for national security on the home front—always a matter of special interest and importance to the electric utilities. Protection of utility plant and safe-guarding personnel are obvious points of security contact.

★

Also . . . ***Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***

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Remarkable Remarks

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DOUGLAS A. MACARTHUR
General, United States Army.

"Human experience demonstrates with striking clarity that the farther removed a people becomes from the economic philosophy of free enterprise, in like ratio does its productive capacity deteriorate."

EDITORIAL STATEMENT
Chicago Daily Tribune.

"Those who believe that Socialism will be bad for the country need not despair of defeating it, but they must organize their strength and they must present their case without equivocation, trusting in the good sense of the voters."

MARVIN B. ROSENBERRY
Chief Justice, Wisconsin Supreme Court.

"The most discouraging feature of the whole process is that the security is to be provided by having one army of men take money away from the people in the form of taxes and another army of men spend it in the shape of grants and aids."

CLEM WHITAKER
Director, American Medical Association.

"The American people must be aroused to come to their own defense. They must be told the blunt truth, that the welfare state is a slave state, and that the cancerous growth of government dependency is the most dangerous sickness in our world today."

HERMAN W. STEINKRAUS
Former president, Chamber of Commerce of the United States.

"I think the most serious thing in this country right now is the attack on business. Business has been so criticized and attacked that businessmen are a pretty scared lot. Congress should be providing assistance and coöperation instead of fear."

V. DEP. GOUBEAU
Director of materials, Radio Corporation of America.

"We should carefully review and evaluate our activities to be sure that such things as human inertia, resistance to change, lack of courage to explore the unknown, professional jealousies, or other human failings might not be restricting our progress."

EDWIN G. NOURSE
Former chairman, Council of Economic Advisers.

"I am not happy when I see government slipping back into deficits as a way of life in a period when production and employment are high, instead of putting its fiscal house in order and husbanding reserves to support the economy if less prosperous times overtake us."

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JOHN W. BOATWRIGHT
Standard Oil Company (Indiana).

"There are grounds for the apprehension that government is attempting to fit business into certain strait jackets or patterns. The Federal government appears to be moving on three fronts: prosecution, regulation, and investigation."

ROBERT P. PATTERSON
Former Secretary of War.

"Freedom is like a bag of sand. If there is a hole anywhere in the bag, all the sand will run out. If any group of our people are denied their rights, sooner or later all groups stand to lose their rights. All the freedom will run out."

DWIGHT L. CLARKE
President, Occidental Life Insurance Company of California.

"Distrust of the government fiscal policy was one of the big reasons why people are not risking their money in business investments. There is no real shortage of funds for equity; it is primarily a lack of mass interest and confidence."

HARRY E. POLK
President, National Reclamation Association.

"Don't let us be deceived; CVA [Columbia Valley Authority] would push the threatening wedge of Socialism just a little farther into our national economy and—make no mistake about it—that is the real goal its principal advocates seek to achieve."

HERBERT HOOVER
Former President of the United States.

"Either we are to remain on the road of individual initiative, enterprise, and opportunity, regulated by law, on which American institutions have so far progressed, or we are to turn down the road which leads through nationalization of utilities to the ultimate absorption into government of all industry and labor."

EDITORIAL STATEMENT
The Wall Street Journal.

"There is but small comfort in the 'creeping' toward statism, that we still have our wonted liberties, that we are yet a long way from either moral or economic bankruptcy. The tortoise will arrive as surely as the hare—and sometimes quicker. We think it is time people stopped being so complacent about how slowly we drift and more concerned about where we are drifting."

DAVID S. AUSTIN
Vice president, United States Steel Corporation.

". . . unless every salesman in the country, in the years which lie ahead, succeeds in his effort to sell the products of the looms, of the rolling mills, of the forges, of the presses, of the farms, and mines and factories, that version of America which our generation holds so closely to heart, will remain a mythical hope based on wishful thinking . . . . you know, and I know, that we can produce from now until the end of time, and unless the output is sold, the result is an unhealthy inventory and a sales-liquidation problem entailing frightful losses. This is not a visionary picture. It has happened before and it can happen again."

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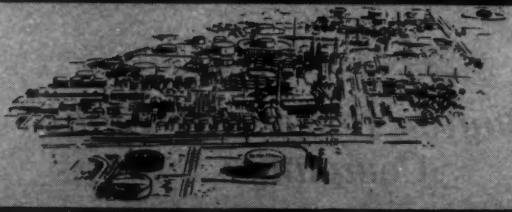

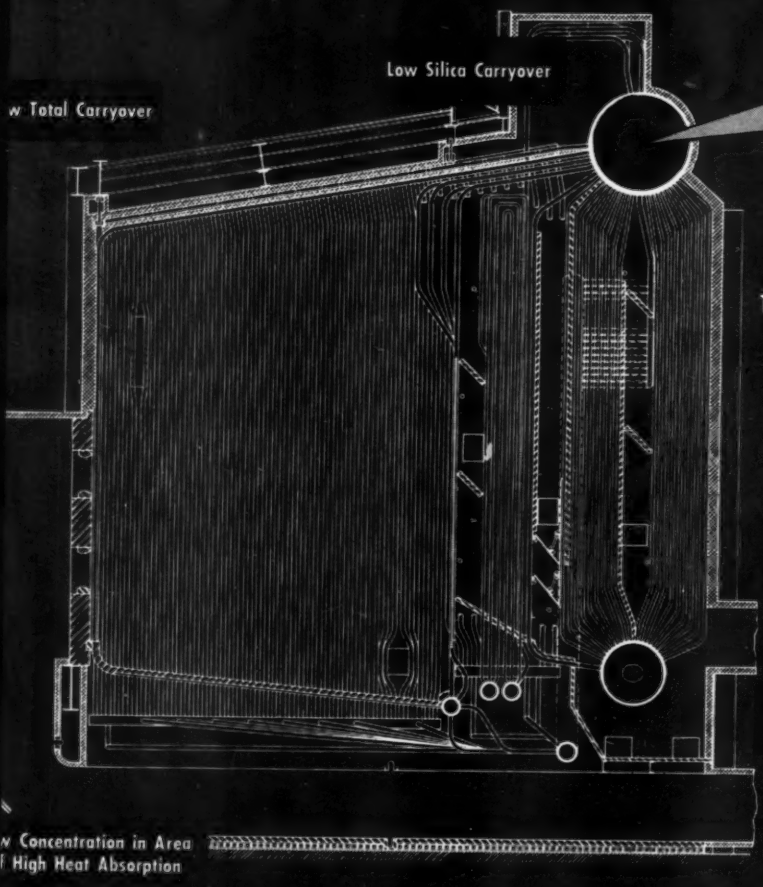

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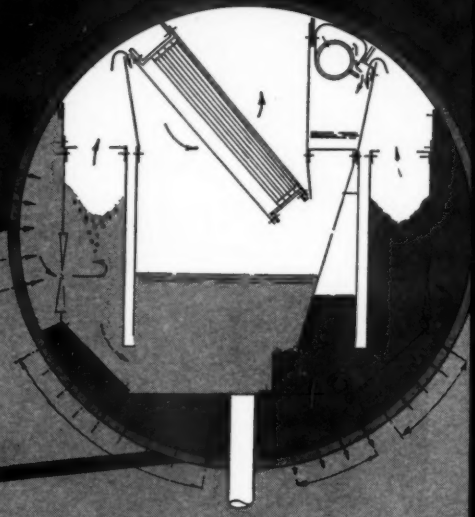

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Under modern operating conditions of high pressure and temperature, the problem of steam purity is of increasing concern to the designers and operators of industrial and central station steam generators. Foster Wheeler engineers have successfully met this challenge by developing the Dual Circulation Steam Generator which already provides materially *higher availability, improved efficiency,* and *lower maintenance of high pressure steam turbines* at one large midwest refinery. Particularly in installations which have high makeup requirements, the Dual Circulation Steam Generator is capable of providing steam of higher purity with less blowdown than is possible in a conventional unit. In units operating on condensate, total solids and especially silica carryover are almost negligible with this design.

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Because of adverse water conditions at the Lawrenceville Refinery, The Texas Company ordered three units, designed for high makeup with high concentration in its makeup. The Lawrenceville project is part of the present construction program in which all crude units are being engineered and constructed by Foster Wheeler.

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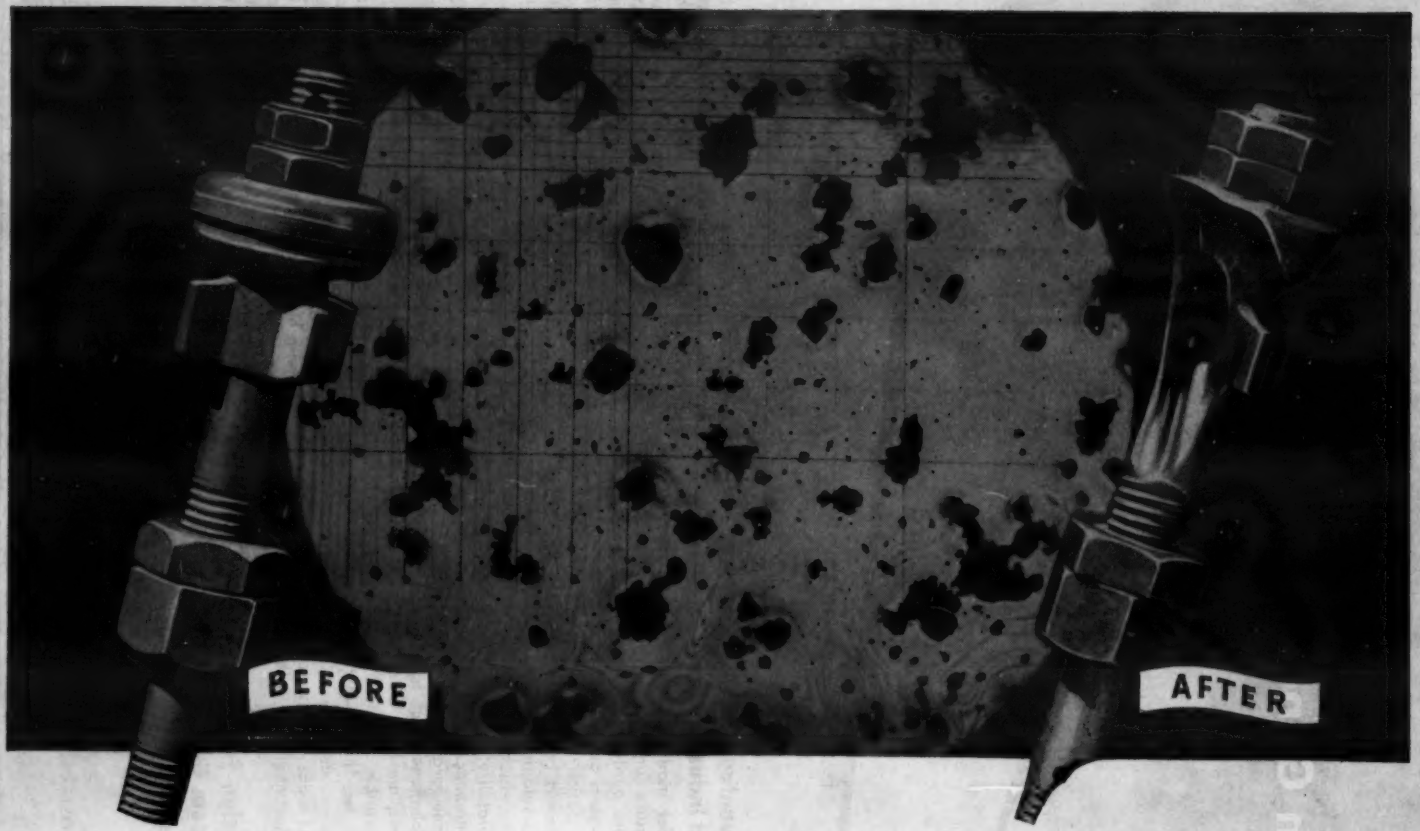
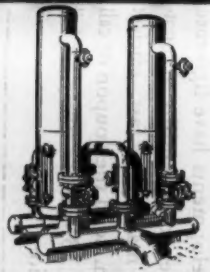


The Toll of "MICRONIC BOMBING"

EVER SEE A MICRON?

The Toll of "MICRONIC BOMBING"



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In this photomicrograph, gas line dust particles of micronic proportions are visible only because they have been magnified 40 times! They were photographed from an actual sample representative of dust that caused the damage to the valve regulator stem at right. In this instance dust not only eroded the valve stem, but blasted a hole through the body . . . escaping gas was ignited by a spark, setting the regulator building afire and cutting off the town's gas supply! Such dramatic exhibitions of dust's damage may be few and far between but—dirty gas *always* increases transportation expense, seriously affects accuracy of metering and pressure regulation and is responsible for increased service calls and costs.

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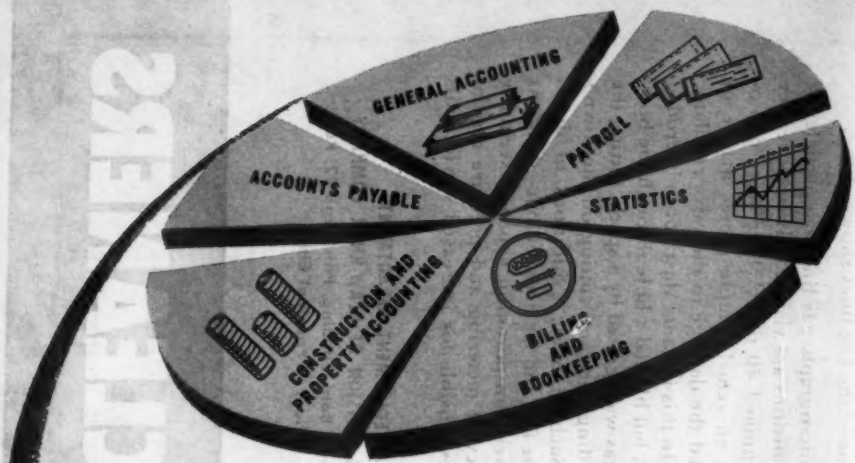

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Utilities Almanack

May

25	Th	¶ *Pennsylvania Electric Association, Transmission and Distribution Committee, begins meeting, Hagerstown, Md., 1950.*
26	F	¶ *American Institute of Electrical Engineers ends conference on telemetering, Philadelphia, Pa., 1950.*
27	Sa	¶ *Society for Experimental Stress Analysis ends annual spring meeting, Cleveland, Ohio, 1950.*
28	S	¶ *Gas Appliance Manufacturers Association begins annual meeting, White Sulphur Springs, W. Va., 1950.*
29	M	¶ *Short Course in Gas Technology begins, Texas College of Arts and Industries, Kingsville, Tex., 1950.*
30	Tu	¶ *Oregon and Washington Independent Telephone Associations will hold annual convention, Spokane, Wash., June 9, 10, 1950.*
31	W	¶ *Pacific Coast Electrical Association begins annual convention, Reno, Nev., 1950.*

June

1	Th	¶ *California Independent Telephone Association begins annual convention, Los Angeles, Cal., 1950.*
2	F	¶ *Advertising Federation of America ends 46th annual convention, Detroit, Mich., 1950.*
3	Sa	¶ *Association of Women Broadcasters ends annual convention, Cleveland, Ohio, 1950.*
4	S	¶ *American Society of Refrigerating Engineers begins spring meeting, Kansas City, Mo., 1950.*
5	M	¶ *Edison Electric Institute begins annual meeting, Atlantic City, N. J., 1950.*
6	Tu	¶ *The Institution of Gas Engineers begins meeting, Bournemouth, England, 1950.*
7	W	¶ *President's Conference on Industrial Safety begins, Washington, D. C., 1950.*

Meeting of the Board of Directors

Interior of new 750-ton boiler, Wisconsin Power & Light Company

Acme Newsphoto

Public Utilities
FORTNIGHTLY

VOL. XLV, NO. 11 MAY 25, 1950

How about Federal Propaganda And Lobbying?

One of the most closely watched special investigations now going on in Congress is the House committee probe of lobbying activity. But the biggest question mark is how the congressional committee will be able to overlook the fact that the biggest and most effective lobbyist in Washington, today, is the Federal government itself.

BY FRANK T. BOW*

PUBLIC utilities have long been a prime target of scrutiny, whenever the allied questions of lobbying or propaganda have been raised, with respect to possible influence on the passage, change, or defeat of legislation. This tendency probably stems back to the antiutility atmosphere of the late twenties and early thirties, when the long investigation of the Federal Trade Commission seemed to reveal considerable activity along this line.

Ever since that time, nearly every printed list of registered lobbyists, or news stories about hired publicity for private interest, appears to attract attention to, if not special mention of, what the utilities have been doing. They are compared with other groups —as to how much is spent and who is paying for it. Even though it is common knowledge these days that farm, labor union, coöperative, and other

*For personal note, see "Pages with the Editors."

business groups are openly engaged in similar activity, the pattern of public thinking has been so shaped, by customary usage, that "lobby stories" commonly bracket other types of lobbying activity with some reference to the public utilities.

When the House of Representatives of the 81st Congress set up a special committee to investigate lobbying, public utilities bobbed up in the news stories regularly. This happened, even though utility representatives were among those who registered most promptly and reported in detail, under the congressional lobby regulations. Less general attention, perhaps, was given to the fact that the special House committee is also empowered to investigate lobbying and propaganda by government agencies and bureaus.

WHILE this emphasis on public utilities (and more recently upon other private business interests) is understandable, the special House committee faces a psychological hazard. That is the danger of overlooking some really important stakes and players in the lobbying game. Fortunately, the committee has the benefit of a considerable public record compiled by a subcommittee of the 80th Congress. These data tend to place, in more balanced perspective, the relative importance of the biggest and most effective lobbying activity now in business. That is the Federal government itself.

Government by propaganda is a relatively new development in the American political scene. Shortly after the turn of the century government bureaus came in for considerable criticism for employing as "clerks," "administrative assistants," etc., newspapermen whose real function was to write speeches and publicity.

By 1915 a Federal law was enacted prohibiting this practice. That is probably the most widely ignored law on the Federal statute books today.

Two hundred and fifty-six organizations, associations, unions, and firms reported to Congress under the Lobbying Act that they spent $7,969,710 in 1949. The leader among the private lobbies was the American Medical Association, reporting $1,522,683.

Recent responsible estimates reveal that Federal publicity and public relations activities, much of which is devoted to propagandizing the public in behalf of legislation giving the various agencies and bureaus of government more power, cost the American taxpayer more than $100,000,000 per year.

The Social Security Board, which agency has been beating the drums for socialized medicine, has been spending about $2,000,000 a year in public relations activities—regardless of whether it is called publicity or propaganda, it is still taxpayers' dollars. The doctors, spending their own money, still do not equal the Federal employees' use of Federal funds in their attempt to regiment the medical profession.

Federal agencies employ 2,327 full-time workers in publicity and public relations and 1,212 part-time employees. The combined salaries of this group in 1948 totaled $13,043,453. The printing bill runs about $45,000,000 and mailing $42,000,000 a year.

AN independent survey by a subcommittee of the 80th Congress revealed an unprecedented flood of news releases from the executive agencies.

A survey by the subcommittee showed, according to an estimate by the Public Printer, that 800 columns or 100 pages of *The New York Times* would have been required to print all the "hand-out" material received by that one newspaper from the Federal agencies during a single week. Other newspapers were revealed to have received like amounts of this material.

Analysis showed that much of it was sheer propaganda designed to influence public thinking and to bring pressure upon Congress.

Yet, surprisingly, the subcommittee found upon further investigation that only a very small portion of the pressure drives, designed to mislead the public and bring pressure on and discredit the Congress, are covered by regular administrative publicity facilities cited above. To the contrary, most of these activities are carried on by propagandists who are concealed on the Federal payroll under a variety of innocent-sounding titles.

A real service could be rendered to the people if the proper authorities would seek to locate and root out the incipient dangers of Federal thought control, that system of government propaganda which presumes to tell the people what they think about certain grave issues in American life today and what kind of legislation they should demand as solutions, and to build up pressure groups to push their favored bills through the Congress.

THERE can be no question that the greatest and most effective lobby in the country today is that conducted by the Federal administrative agencies.

Most of this activity is carried on in the field, although policies are formulated in Washington and instructions flow from the national agency level. The more than 2,000,000 employees on the Federal payroll, strategically assigned throughout the forty-eight states and territories, comprise a very effective field army for the waging of campaigns to influence popular opinion and to bring pressure upon Congress on specific issues.

It may be assumed that these vast numbers of employees are loyal to the national administration and to their employing agencies, and that they are motivated by the same desire for increased power and appropriations which inspires the propaganda campaigns at the national level.

In sheer weight of numbers alone this vast Federal army effectively influences public thinking. Directly or indirectly it touches the daily life of every citizen. The average citizen also assumes that his Federal government is objective and impartial and fair in its information services. He ordinarily accepts as authoritative that information which comes from the government through official channels, where-

¶ "RECENT *responsible estimates reveal that Federal publicity and public relations activities, much of which is devoted to propagandizing the public in behalf of legislation giving the various agencies and bureaus of government more power, cost the American taxpayer more than $100,000,000 per year.*"

as the individual might reject propaganda coming to him from other sources. He is more likely to be receptive to it when it is offered in the guise of information which comes through official channels.

FEDERAL propaganda is cleverly designed for the greatest possible effectiveness. It appeals to the special interests of groups and individuals by seeming to promote their special advantage. If instinctive fear of increasing power of government intrudes to make the individual wary, he is soothed with an assurance that controls and restrictions will fall upon him lightly if at all, and is encouraged to believe that other areas of our national life need a little more controlling anyway.

The Federal propaganda of the moment carefully avoids telling the group or individual, under pressure, that vigorous campaigns are conducted in other areas which, if successful, will increase their tax burden and throw added restrictions upon their liberties.

This need not be taken as a reflection upon the public intelligence but it can be pointed out, however, that the American people are unaware of this new technique of influencing public opinion. American citizens have not learned how cleverly facts may be distorted and information colored to mislead them. They have not yet realized how their faith in the Federal government can be abused for the purpose of conditioning national thinking.

While most of the lobbying activity by Federal employees is aimed at specific legislation to increase the power and appropriations of specific departments and agencies, the over-all effect is a tremendous and constant pressure for more expensive government and further encroachment upon the rights and liberties of the individual citizen.

Unless proper checks are devised and enforced the inevitable result will be a further concentration of power, higher taxes, and less freedom for the individual.

THERE is no question but what the problem presents an increasing threat to our present system of government inasmuch as any legislator who attempts to oppose legislation advocated by federally inspired pressure groups for what he may see as a greater national good is increasingly victimized by each expansion of the Federal government and the number of its employees. Thus, while the nation as a whole cries for lower taxes and less interference from Washington, it becomes increasingly difficult to decrease either controls or taxes because important pressure groups are constantly being stimulated from Washington to resist such proposals.

The public is being conditioned by its own government to demand more and more subsidies, guaranties, and outright grants and to defeat any member of Congress who dares to raise his voice in protest. This indeed raises a serious question as to the courage of the men on Capitol Hill. Will they, as members of Congress, and in the face of ever-increasing government propaganda, become progressively more subservient to pressure groups until their effectiveness and that of Congress as an equal branch of government is destroyed, or will we, sometime in the near future, see an

Effective Propaganda

"FEDERAL propaganda is cleverly designed for the greatest possible effectiveness. It appeals to the special interests of groups and individuals by seeming to promote their special advantage. If instinctive fear of increasing power of government intrudes to make the individual wary, he is soothed with an assurance that controls and restrictions will fall upon him lightly if at all, and is encouraged to believe that other areas of our national life need a little more controlling anyway."

effective remedy taken in time?

It was pointed out sometime ago, by a subcommittee of the House of Representatives investigating publicity and propaganda, that the situation had reached the danger point. They pointed out that the Constitution provides for a Federal government of three separate branches, but that there is a fourth invisible branch which is becoming more powerful everyday. This is the bureaucratic branch. Through instrumentalities within the administrative branch, this group has come to exercise increasing influence which infringes upon legislation and which might very conceivably come to exercise such invisible power that it will seek to dominate the executive branch as it is now seeking to dominate the Congress.

PRESSURE for the increase of appropriations by the action of those in Cabinet positions is not new. It will be recalled that in recent years customs inspectors were laid off at the time of an attempted increase in the Customs appropriation. Reclamation projects in the Far West were shut down, at a great loss to the government, when there were still sufficient funds to carry them on, all in an effort to pressure the Congress for larger appropriations. The Postmaster General, when his appropriation for the operation of his department was being considered, caused a reduction in mail delivery throughout the nation. This reduction, regardless of the fact that the previous appropriation had been granted with a very small decrease to the Postmaster General.

It must, of course, be recognized that certain information services are an essential part of any institutional operation, but it still can be insisted that there is a clear line of distinction between legitimate information services and those additional operations

which tend to build up public opinion in favor of more projects, broader programs, or Federal invasion of new spheres of public service. It is primarily the latter which will be discussed in this article.

By looking at just a few of the departments a quick summary can be outlined.

In the Department of Agriculture, according to the last figures available to the writer, there were 525 persons engaged in public relations work. Salaries ranged from $10,000 down to $1,888 a year, but only 204 members of this robust information staff were in Washington. The rest were found in branch offices of the department throughout the country and in Alaska and Puerto Rico. Every known media of intelligence is utilized by Agriculture.

THE Office of Information prepared 1,998 press releases in nine months, an average of 11 every working day. During the same month the office prepared 837 radio scripts, including several network programs. The radio time contributed for these programs normally has a commercial value of more than $500,000 a year. The same nine months saw 17 new motion picture films released through the department's film station, and, in the same year, Agriculture's combined printing bill, all bureaus, divisions, and offices, was $2,260,784, exclusive of mimeographing processes within the department.

The country was shocked recently when Senator Aiken exposed the fact that Secretary Brannan had hired an audience of 3,000 farmers from every county in the state of Minnesota to hear him make a political speech on a forum shared with Senator Humphrey. The plan was simple. By the expenditure of fifty to one hundred thousand dollars, local committeemen of the State Soil Conservation program were invited to attend the meeting ostensibly to discuss the conservation program for the forthcoming year on the basis of mileage and per diem expense which, as a rule, was sufficient to cover the cost of bringing the committeeman's wife or a guest. That other such meetings have been held in the past and will continue to be held in the future is entirely probable so long as the present government program is being propagandized at the taxpayers' expense.

Certainly this technique is far from unusual. By an amazing coincidence the REA annually finds urgent business for consultation with members of boards of directors of local coöperatives just at the time when the annual appropriation for the REA is pending before the House and the Senate. Hundreds of such coöperative members get free trips to Washington and, oddly enough, never fail to drop in for a visit with their own Congressmen to urge support for the pending bill, support which has always been unfailingly granted. Many pending matters that could have been transacted in the field or by journeys to Washington at less coincidental times, suddenly come to a head at the crucial moment on the appropriations bill. Members of the Appropriations Committee are particularly subject to such visits.

BECAUSE the propaganda activities of the Bureau of Reclamation were so obvious and involved they re-

ceived a major portion of the Propaganda Subcommittee's attention. The investigation of this agency took up several months of the subcommittee's time.

The subcommittee, in its report on the Bureau of Reclamation, said "the most shocking and amazing story of bureaucratic intrigue was unfolded." It accused Commissioner Straus of calculated deception.

Other parts of the "sordid story" which the subcommittee had presented to it included: "Incompetency, evasion of the intent of Congress, disregard for the truth, deliberate withholding of material information from committees of Congress, and willful violation of Federal law."

Considerable interest was expressed in the fact that practically all the top officials of the Bureau of Reclamation were former newspapermen, rather than engineers.

Because they were being sidetracked in favor of the propaganda experts, who were increasingly filling key posts, the committee found that many of the career employees "today fight against heavy odds to maintain their reputations and many have left, or are now threatening to leave, the department . . . "

The testimony of Leon Hostetter, a former employee of the bureau, was significant in this respect. Mr. Hostetter, a competent and highly trained engineer, resigned his position to enter private employment. He had been disillusioned by activities within the bureau. He testified that when he attempted to discuss his problems with other bureau employees, he found them "out making speeches."

Mr. Hostetter testified that another employee expressed surprise that he would leave the bureau, thinking that he would prefer, as he put it, to "be a member of the organization which would preside over the social changes in Central valley."

THE subcommittee found strong implication that the Reclamation Bureau had been active in the organization and operation of propaganda-front conferences. It is interesting to note that other Federal agencies were found active in organization and operation of propaganda-front conferences, and in sponsoring and organizing propaganda organizations. Commissioner Straus frankly stated that statements for outside witnesses had been prepared by the Bureau of Reclamation staff and Assistant Commissioner Markwell said that outside witnesses had been "stimulated."

In addition to engineers actually working on reclamation projects, it

¶ "A REAL *service could be rendered to the people if the proper authorities would seek to locate and root out the incipient dangers of Federal thought control, that system of government propaganda which presumes to tell the people what they think about certain grave issues in American life today and what kind of legislation they should demand as solutions, and to build up pressure groups to push their favored bills through the Congress.*"

was found that the bureau had various types of personnel roaming about the country, telling the bureau's story to the public, and, of course, all these people spoke with the tremendous prestige and supposed objectivity of the Federal government back of them.

ONE of the most interesting stories of all unfolded by the subcommittee had to do with the unusual manner in which the bureau labeled its public relations men when Congress sought to curtail the illegal propaganda activity by cutting down on the appropriation for information activities. These employees were simply shifted over to other positions on the payroll. Commissioner Straus himself explained how this was done at a meeting of Reclamation officials in Salt Lake City. He said in part: "Regions 1 and 2, and the other regions, were informed of the legislation, the appropriation action, and were instructed to make what disposition they saw fit of their regional information agents that heretofore had been charged to salaries and expenses, it being pointed out to them that it would not be enough to merely put the same information on a centralized project payroll, but that they would have to change the description and carry it in some other way that came within the limitation."

Concerning the propaganda activities of the Reclamation Bureau, the Propaganda Subcommittee reported:

> It is the opinion of our committee that the bureau has deliberately and willfully gone beyond its proper and lawful public information function. It has expended undetermined sums in propaganda designed to generate public approval of official policies. It has disseminated material craftily planned to smear and discredit its critics and to undermine the influence of members of Congress who, in the performance of their duty, would expose questionable practices of the bureau.
>
> This subcommittee has assembled a voluminous file of publications, releases, speeches, and other propaganda material, prepared and distributed by the bureau, or printed by its supporting groups and distributed through regular bureau channels. A large number of pamphlets on technical subjects have been carefully written in laymen's language, with clever emphasis upon the complexity of the problems involved. The implication is clear that the bureau should be given blanket authority without inquiring too closely into what the bureau does, or how it affects the real interests of the nation.

PERHAPS the most intriguing publicity document disclosed was one entitled, "They Subdued the Desert." The publication was prepared by Barrow Lyons while serving as chief information officer of the Bureau of Reclamation. Mr. Lyons toured the seventeen Reclamation states during October and November of 1946, writing this story as told to him, "by the men who supply water, till the land, and feed their flocks and herds." The booklet portrayed in a favorable light those persons who favored the bureau's policy, and in an unfavorable light those who opposed it.

Concerning this publication, the subcommittee found:

> A close examination of the publication leads the committee to the conclusion that it was sheer propaganda and not even of the subtle variety generally encountered under similar circumstances.
>
> Articles were written in a manner that would influence class against

class, liberal against conservative, and inject into the minds of readers, ideologies sponsored by some of the planners within the bureau.

All this was done at government expense.

It was from this same Mr. Lyons, acting chief information officer of the bureau, that the subcommittee learned how such information activities can be affected by the political situation. Mr. Lyons testified:

> In the first place, as long as the Congress is on the other side of a policy from the administration, I think the administration should be very careful about how it sells a program. I think that as long as there is conflict in policy between Congress and the administration, that information becomes a very ticklish job. As long as there is agreement, if they are both Democratic or they are both Republican, I think they can pull the stops out pretty well on promoting a policy.

Evidently, it can be assumed from this testimony that all the stops have now been pulled out.

But far from being an isolated example, the activities of the bureau appear to be fairly typical of other Federal agencies which came under the scrutiny of the subcommittee.

Because they are further illustrative of the pattern of Federal propaganda, let us examine several others uncovered by this investigative group.

It was found that officials of six Federal agencies were active in creating pressure upon Congress for enactment of socialized medicine or national health insurance—a question which is currently one of the hottest issues before Congress. These pressure campaigns were carried on through the formation of so-called Health Work Shops. Interested persons from all over an area were called in to discuss their health problems. The Federal propagandists sat in as experts, presumably to give expert answers to any questions which might come up. But the subcommittee found that the questions were cleverly staged so that enactment of socialized medicine appeared to be the one and only answer to all problems.

Concerning these meetings the subcommittee found:

> All the evidence before us indicates that these health workshops were planned, conducted, and largely financed with Federal funds, by a key group on the Federal payroll, who used the workshop method of discussion subtly to generate public sentiment in behalf of socialized medicine. It is evident from the records that most of the planning was done by the Federal officials in Washington prior to each workshop conference and that each meeting was devoted to their own purposes, that of organizing pressure groups to agitate for compulsory health insurance, as then pending in Congress.

It was further found that "extraordinary executive pressure" was exerted by the Surgeon-General upon the staff of the U. S. Public Health Service to further the propaganda campaign for socialized medicine.

Regarding this investigation, and its implications, Chairman Harness was moved to declare:

> If the medical profession and all our hospitals can be taken over by the Federal government and forced into a new and gigantic health bureaucracy, then it would only be a question of time until Washington likewise moved into the

field of education, religion, the press, and radio.

Freedom soon would be in total eclipse.

It is impossible to outline in detail all of the propaganda programs of the various agencies and bureaus of government.

Much of this activity would seem illegal under § 201, Title 18 of the U. S. Code. That section offers a blanket prohibition against the use of any Federal appropriation for the purpose of influencing legislation before Congress. Instances have been called to the attention of the Attorney General of these violations, but no action has been taken. Vigorous prosecution of one case would have a salutary effect on many others.

This issue is challenging in that it reveals for public examination the manner in which government lobbyists operate on the government payroll, how they are always at work to expand their fields of interest, to perpetuate themselves in office, and to impose their ideas and systems upon the American people by organized propaganda, paid for entirely by the diversion of public funds from their true purposes to the shielded purposes of the top bureaucrats and planners.

The fundamental issue from the legislative standpoint is whether or not the Congress of the United States has lost its power to establish and maintain the sort of government the people want; or whether the bureaucrats are supreme and can give the sort of government they want, regardless of Congress, regardless of elections, regardless of public opinion.

This is a question which goes to the very roots of popular government.

If the bureaucrats are above Congress, and may defy Congress in the way they spend their appropriations, then representative government has become a fiction.

William Dwight, general manager of the *Holyoke* (Massachusetts) *Transcript-Telegram* warned his fellow members of the American Newspaper Publishers Association recently of the dangers of propaganda drives. Mr. Dwight said:

> We print columns of propaganda under the guise of news, advocating those things which we know threaten to destroy us. We pay out money for the privilege of assisting in changing our cloak of freedom for the rags of government domination and slavery.
>
> We justify it on the basis that we are broad-minded and want to give both sides of the story. If only we would give both sides! Instead, the clever propagandists are using us to put their subversive ideas across while many of us stand by silently.

"Tell the people the truth," he said, "in words they will understand. Don't be so squeamish about those toes you step on; forget politics. We can save America and Americans if we act quickly. It is later than we think."

"A GOVERNMENT *that promises social security when it is continually diluting money, is not only a hypocrite, but morally a thief. Until this is clearly seen by the millions whose pockets are picked, there will be no stopping the downhill course.*"

—SAMUEL B. PATTENGILL,
Legal department, Pure Oil Company.

The Sale and Lease Back of Corporate Property

Within the last few years national chain stores and other commercial organizations have been able to work out a mutually beneficial arrangement with institutional investors for the construction of their stores, office buildings, and other operating properties. Life insurance companies, for example, find a safe long-term and well-paying placement for their deposited funds by investing in such properties which can be in turn leased over the full period to the operating business interests. The latter thereby obtain the release of their own funds for future expansion or operating purposes.

By ERNEST R. ABRAMS*

The sale of the real property of corporations and their leasing back of the identical premises recently has been extended to the communication utility field. On March 12, 1948, Western Union Telegraph Company sold its headquarters office building at 60 Hudson street in New York city to the Woodmen of the World. And as a variant of the device, Associated Telephone Company, Ltd., the largest independent telephone company in the country and a subsidiary of General Telephone Corporation, currently is negotiating with Continental Assurance Company of Chicago and Mutual Life Insurance Company of New York for financing the construction of revenue accounting and commercial buildings at Long Beach and Santa Monica, California, respectively, which the utility will occupy under long-term leases. A third Associated building is proposed for San Bernardino, which it is contemplated some life insurance company will finance and own.

According to Burns W. Lee Associates, public relations counsel of Los Angeles, the George W. Carter Company has constructed 41 buildings for Pacific Telephone & Telegraph Company, in addition to doing the work now under construction for the Associated Telephone Company. Carter has taken on the job not only of constructing the buildings but handling interim financing and negotiating the sale to an investor, plus arranging for the long-term leases for his clients. The advantage of these deals is that the client's capital is not tied up at any

*For personal note, see "Pages with the Editors."

time in any amount during the transaction.

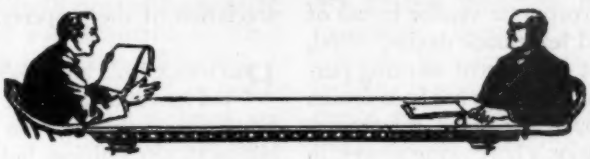
THE sale and lease back of corporate property is not a new invention. Professor William L. Cary of Northwestern University Law School mentions, in the *Harvard Law Review* of November, 1948,[1] an English case of sale and lease back—Yorkshire Ry. Wagon Co. *v.* Maclure—which was before the courts in 1882. Originally utilized in this country almost exclusively by the field of retailing, the device has been adopted by practically all forms of business enterprise where a substantial portion of the assets is represented by fixed property. Moreover, where the purchase and lease back of corporate property was first made largely by individual investors and estates, it has now spread to life insurance companies, colleges, and charitable institutions.

Although legal reserve life insurance companies have been lending money on nonhousing real estate for more than a century, it was not until early in 1946 that the laws of any but a few states permitted them to acquire this type of property, except under foreclosure; then they had to sell it as soon as they could. New York life companies could buy or build only projects for living purposes until 1946, and then only if they owned the land in fee or held it under long-term leases. Even after the law was amended, it took a favorable opinion from the attorney general to insure they could buy or construct nonhousing projects on leaseholds. By the close of 1949, approximately three-quarters of the states had amended their insurance laws to permit legal reserve life insurance companies to invest in income-producing real estate of a nonhousing character.

BUT the laws of the states are by no means uniform. Some states give the right only to companies domiciled outside their borders. Others restrict the privilege to domestic companies. And still others make no distinction whatever. In addition, many states place a limit on the amount of total assets that can be invested in this type of property. In New York, life insurance investments in nonhousing real estate are limited to 3 per cent of total assets, with no individual investment representing more than one-quarter of 1 per cent of admitted assets. The 1945 New Jersey law put the ceiling at 5 per cent, while the 1947 Tennessee law fixed the limit for domestic companies at 10 per cent. Moreover, both New Jersey and New York permit the purchase or construction of leasehold projects, while other states prohibit any but fee transactions.

Educational institutions started the purchase and lease back of corporate property ahead of the legal reserve life companies, although churches and religious bodies were well ahead of them. Although too large to be typical, the transaction between Allied Stores Corporation and Union College at Schenectady, New York, is perhaps the best known. Allied Stores owned substantially all the land, buildings, and fixed equipment occupied by department stores in six cities, plus the stock of two realty companies owning

[1] "Corporate Financing through the Sale and Lease Back of Property; Business, Tax, and Policy Considerations."



Origin of the Lease Back

"THE sale and lease back of corporate property is not a new invention. . . . Originally utilized in this country almost exclusively by the field of retailing, the device has been adopted by practically all forms of business enterprise where a substantial portion of the assets is represented by fixed property. Moreover, where the purchase and lease back of corporate property was first made largely by individual investors and estates, it has now spread to life insurance companies, colleges, and charitable institutions."

property in Boston. On June 1, 1945, Allied Stores sold this property and stock to Union College's real estate holding subsidiary for $16,150,000, or slightly more than its net depreciated value of $16,000,000. Roughly $11,000,000 of this value was represented by land. After the payment of existing mortgages, the net cash accruing to Allied Stores was a little over $8,000,000.

UNION COLLEGE then leased these properties back to Allied Stores or its subsidiaries for thirty years, with renewal options running another thirty years, for an aggregate rental of $26,015,876. If all leases were to terminate at the end of the 30-year period, the average annual rental would be equivalent to 5.37 per cent of the selling price of the property. But on the basis of sixty years, rentals would be at the average rate of 3.43 per cent, since rentals during the 30-year renewal period were fixed at just over 2 per cent of the land value alone, with a minimum annual rental of $240,000.

To finance its purchase from Allied Stores, Union College borrowed $4,000,000 at 2½ and 2 per cent from a New York bank, which was to be amortized over a 5-year term with interest dropping as the loan was reduced.

It also sold $12,000,000 20-year first mortgage bonds, secured by the Allied properties and bearing an average annual rate of about 3⅛ per cent, to the Prudential Life Insurance Company. As a result of these borrowings, Union College's actual out-of-pocket investment was $150,000, while it received the difference between the sum of the rentals and the interest on its debt as income. However, it announced at the time the bonds were sold that it would devote all income from the Allied property to debt retirement for a period of twenty years.

THERE are four major advantages to the corporate vendor in use of the sale and lease-back device. First, it thaws out for current working purposes the capital which has been frozen in fixed property. Second, it increases the corporation's borrowing power, in the absence of funded debt. Third, it provides more ready cash than could be borrowed on the property through mortgages or bonds. Fourth, it permits the writing off of the investment in fixed property during the term of the lease, including the cost of the land which cannot be amortized under tax laws. Without using too sharp a pencil, corporate managements place the net rental for the real estate they once owned at about 3.7 per cent per annum or less than the cost of preferred stock money to most of them.

There are, however, three major disadvantages to use of the device. First, the rental paid under the lease is usually at a higher rate than the cost of borrowed funds under an indenture, because (1) the lessor does not have the general obligation of the lessee; (2) the investment in land and buildings lacks liquidity and ready marketability; and (3) considerable time is consumed in tailoring the sale and lease-back agreement to the specific needs of the vending corporation. Second, although the seller no longer holds title to fixed property, he does have full responsibility for insurance, maintenance, taxes, and other functions of ownership, and has bound himself to pay rentals equivalent in the aggregate to the amortized sale price, plus interest. Third, although rental payments become operating expenses and permit of some tax reductions, this advantage may be offset, in large part, by the loss of credit for depreciation of the property.

BETWEEN 1925 and 1949, the admitted assets of all legal reserve life insurance companies rose from $12.9 billion to $59.3 billion, but their mortgage holdings, while growing from $4.8 billion to $12.9 billion, represented a smaller proportion of admitted assets at the close of the period than at its start. Where mortgages represented 42 per cent of total holdings in 1925, they were down to 21.7 per cent in 1949. On the other hand, U. S. government bondholdings of life insurance companies jumped from $700,000,000 in 1925 to $15,175,000,000 in 1949 and, percentagewise, they rose from 5.6 per cent to 25.6 per cent of admitted assets. Perhaps the relatively low rate of increase in mortgage holdings in dollar volume, and their drop by practically one-half in relation to admitted assets, is due to the many invasions government lending agencies have made of the real estate mortage field in the past.

On January 31, 1947, legal reserve life insurance companies held commercial nonhousing real estate for investment which represented an outlay on their part of $95,193,000. On November 30, 1949, or thirty-four months later, this type of investment had risen to $472,215,000 or by $337,022,000. Although it is impossible to determine with exactness what part of this increase resulted from the purchase and lease back of business properties, life insurance officials estimate the volume of this variety of investment since the close of 1945 runs upwards of $350,000,000. Roughly 66 per cent of this lease-back property was comprised of

buildings occupied by department and chain stores in all parts of the country, 21 per cent was industrial buildings (New York Life built a $10,000,000 structure for Continental Can on the West coast and leased it to them), and the remaining 13 per cent was office buildings.

THE opportunity to acquire real estate from top-credit corporations and lease it back to them has opened a new field of investment for life insurance companies at a time when the earning power of their funds was at its lowest level in a century. If a life company or a college or a charitable institution can buy a desirable property from a sound credit risk and lease it back to the seller for 6 per cent of the purchase price annually for twenty-five years, they can retire their entire investment during the lease period and earn 3½ per cent on their money. That's about one-half of 1 per cent more than the average earnings of all legal reserve life companies on their investment holdings in 1949. And if the term of the lease is longer than twenty-five years, the rate of return is higher.

Although no value will be assigned to the property on the buyer's books after the lease expires, since it was amortized during the term of the lease, the land will still be there or, as the case may be, the unexpired term of the leasehold, as will be the improvements if they have been properly maintained. So the chances are good for a continuing flow of income after the lease has expired. And should the demand exist, a new building could be erected or the old building modernized.

RETURNING to the communication utilities discussed in the first paragraph, Western Union leased from the Woodmen of the World the building it sold to them for an initial period of twenty-five years, plus renewal options extending for an additional seventy-five years. Associated Telephone is leasing the Long Beach building from its owner for thirty years, with option renewals for two additional periods of ten years each, and is leasing the Santa Monica building for forty years with an option to renew the lease for ten more years. Although rentals have not been disclosed, it is understood they approximate 6 per cent of the cost. Both the Long Beach building, costing $650,000, and the Santa Monica building, costing $875,000, are general purpose structures, in no way suited solely to the telephone business. The San Bernardino building, on which construction has not started, is a maintenance structure, costing $300,000.

Except in peculiar situations, it hardly appears likely that the leasing of buildings at 6 per cent of their cost, plus all operating costs, insurance, and taxes, offers much of advantage to electric and gas utilities. Their overall cost of capital today runs less than this charge and, obviously, leased property could not be included in the rate base. Moreover, restrictive provisions of bond indentures doubtless would prevent them from selling property for lease-back purposes without turning over the proceeds of the sale to the trustee, and this would defeat their purpose in selling. Still, there may be occasions when the device will fit into financing or expansion plans.

What Price Rights?

Frequently the market quotations of rights to buy newly issued utility shares are so little—with relation to open market value of such securities—that it hardly pays the owner to market them, if he does not care to exercise such rights. Is public utility management overlooking a valuable angle of investor relations when it fails to make sure that the rights of common shareholders are really worth something?

By W. F. STANLEY*
VICE PRESIDENT AND SECRETARY, SOUTHWESTERN PUBLIC SERVICE COMPANY

LATEST estimates indicate that electric utilities already have accomplished more than 60 per cent of the public financing necessary to complete the industry's 4-year program of expansion.

Favorable market conditions both for debt securities and equities, together with the favorable earnings comparisons for most electric utilities during the past year, have contributed to the successful outcome of the industry's financing to date.

While the industry is not presently beset with any serious obstacles in the continued raising of the necessary funds, it is still confronted by problems as to the method of financing to be employed, particularly as to equities.

Perhaps chief among these problems is that of the offering of common stock to stockholders under preëmptive rights as against the sale of stock directly to the investing public. This is a broad question, with room for argument on both sides, and one which it is difficult to answer in general terms.

The higher market levels which have prevailed for common stock of electric utilities for the past six months or more have, however, underscored another problem for companies which either are compelled or desire to offer to their own stockholders the first opportunity of purchasing common shares to be sold. This problem relates to the percentage discount below existing market levels at which the stock should be offered to the prospective stockholders.

*For additional personal note, see "Pages with the Editors."

BEFORE the Second World War it was the general custom, upon an offering of additional stock to stockholders, to fix the offering price substantially below market levels. In this way the company could be reasonably assured of receiving the funds it needed, and, under such circumstances, no underwriting was necessary. These discounts often ran 20 per cent, 25 per cent, 30 per cent, or even more below the then existing market for the stock.

While this procedure was usually successful in raising the required funds, it resulted in substantial dilution because of the larger number of new shares which had to be issued, and often seriously affected the market value of the stock, sometimes for a protracted period. While a lower discount would have lessened the dilution and the consequent adverse market effect, it would also have tended to reduce subscriptions, so that underwriting of the issue by an investment banking group would become advisable. Thus a smaller discount would increase the underwriting risk and might make the financing cost relatively high.

It was primarily in an effort to solve this problem by reducing the discount without substantially increasing underwriting expense, that the so-called excess subscription privilege was developed and first employed by Southwestern Public Service Company in its offering to stockholders in February, 1947. Under this technique, stockholders were permitted, in addition to their right to buy their pro rata share of the new stock, to subscribe for any number of additional shares, such additional subscription being subject to allotment in case subscriptions were received for more shares than the number offered.

It is now generally recognized that the excess subscription method and the payment of commissions to security dealers for assisting in handling and obtaining subscriptions, have contributed to the success of many offerings of common stock of electric utility companies in the past three years where the offering price was relatively close to the market. Both of these methods served to reduce the underwriting risk by giving greater assurance that a larger percentage of the stock would be subscribed. The payment of commissions to security dealers was also first used in the Southwestern Public Service Company offering of February, 1947.

THE average discount below the market at which 32 issues of common stock were offered to stockholders from January 1, 1948, to September 20, 1949, was approximately 9 per cent where the excess subscription privilege was not used, while on 21 similar issues, where the excess subscription privilege was used, the average discount was approximately 7.4 per cent.

Discounts from market levels have shown a decreasing tendency during the past year, as the general market for utility securities has moved upward, reflecting the greater demand for these equities, and consequently smaller risk to the underwriters, until, in recent months, discounts have been reduced almost to the vanishing point. The pendulum seems to have almost completed its full arc from the substantial discount of the past, to a point where the offerings have been made

Success of Electric Industry Financing

"LATEST estimates indicate that electric utilities already have accomplished more than 60 per cent of the public financing necessary to complete the industry's 4-year program of expansion. Favorable market conditions both for debt securities and equities, together with the favorable earnings comparisons for most electric utilities during the past year, have contributed to the successful outcome of the industry's financing to date."

at, or only very slightly below, the market price.

During the past four months additional stock has been offered by a number of electric utilities to their stockholders at prices so close to the market that the rights had little or no value. In six cases of this kind, indicated average value of the rights was in the neighborhood of four cents. In several cases the average value of the rights was closer to one cent, or only $1 per 100 shares held. Admittedly, under these circumstances, the company received the highest possible price for the stock. This sounds persuasive at first consideration, but what about the stockholder and the investment dealer?

LET us first consider the stockholder's reaction. He receives a warrant for his rights and a lengthy prospectus as well as a letter of transmittal outlining the transaction. He learns that additional stock is being sold by the company and is being first offered to the stockholders. Not unnaturally, he assumes that he is receiving a right to buy the stock at a considerably lower price than the public. After spending time examining these papers, he probably calls his investment dealer or broker and finds that the difference between the price at which he can buy the stock under his rights and the market price is infinitesimal. In many cases this will discourage him from making the investment, and he will ask the dealer to dispose of his rights.

The dealer will sell the rights and, under these circumstances, will find that the net proceeds are so small that he cannot charge any commission for the transaction. Many brokerage firms have minimum commissions of $1 or $2 or more per transaction, so if the stockholder had a 100-share unit, a $2 commission would take one-half of proceeds of $4, and where the rights sold as low as one cent or two cents, the minimum commission would exceed the proceeds. Of course the situation would be even worse in the case

of a great number of stockholders who hold less than 100 shares.

What results are reasonably to be expected from such a situation? Obviously, dissatisfaction and irritation to all parties. The stockholder feels that the time and effort he has expended and the trouble he has been put to have not been justified by the meager results. He may feel, too, a sense of ill-treatment. He has come to think of rights as something having an appreciable value to the stockholder, and the company appears to have deliberately withheld these values from him.

As to the investment dealer, he has been forced to forego any compensation in the case of many of his customers, and thus has had to make a free contribution of the time and effort necessary to handle many transactions in the rights. Furthermore, his customers in the stock are in no pleasant frame of mind, despite this contribution on his part.

THE subscription results of some of these offerings have indicated that a considerable proportion of the rights were neither exercised nor sold by stockholders in cases where it was obvious that the sale of the rights would bring so little as to be not worth the trouble involved. Here the rights were simply thrown away, and the stockholder's reaction is even more unfavorable.

Is the worsening of stockholder and dealer relations, which this financial policy must almost inevitably cause, compensated by the higher price received for the stock by the company? Assuming an average investment of $3,000 at market value and a right offering of one share for each eight outstanding, a discount of 6 per cent would amount to $22.50. If the stock sold in the market at $30 a share, the investment would represent 100 shares, and the rights would be worth 22½ cents each. If the stock sold in the market for $15, the investment would be 200 shares, and the rights would be worth 11¼ cents each, but, in both cases, the aggregate value of the rights would be $22.50 on the $3,000 investment.

It is of course difficult to place any minimum value on rights which would assure that they will be exercised, or, if sold, assure that the proceeds would be sufficient to enable the security dealer to obtain a fair commission for his time and trouble and still give even the small stockholder a sum of money large enough to warrant his time and trouble in the transaction. It would seem, however, that a discount of at least 5 per cent or 6 per cent from market levels is probably necessary to create sufficient value in the rights to make the transaction worth while from the standpoint of the stockholders and investment dealers.

LET us assume the stock is selling at $30 a share in the market, or 12 times the company's earnings of $2.50 per share. Let us further assume 1,000,000 shares are outstanding prior to the 1-for-8 offering. The offering would then consist of 125,000 shares, which, at the market value of $30, would raise $3,750,000 of new equity money. Discount off this market of 6 per cent, or $1.80 per share, leaves the discounted offering price $28.20. On this basis, to raise the same amount of equity funds, it would be necessary

to sell approximately 133,000 shares. The earnings per share, after theoretical dilution on a basis of the sale of new stock at $30, would be $2.2222 a share, whereas, on the basis of an offering at $28.20 a share, the earnings, after being so diluted, would be $2.2065 per share. Accordingly, the additional dilution in earnings per share would be 1.57 cents, or seven-tenths of one per cent. This seems a very small compensation for the loss of the good will of stockholders and security dealers, which it is reasonable to expect will result from overpricing the stock.

The sale of equity securities differs from merchandising generally in that it involves intangible values, for all that can be delivered is a piece of paper representing an interest in an enterprise, instead of tangible goods, as in the case of most merchandising transactions. Nevertheless, while these intangible values call for a higher ethical standard in security transactions, the sale of common stock is still essentially a merchandising operation. Considered in this light, let us assume as an analogous case that a well-known department store circularized their charge account customers offering them, for a limited period, a special sale of men's or women's apparel. What would customers say if, after journeying to the store under the impression that they were receiving an opportunity to buy at a bargain not available to the general public, they were told that an article which the circular priced at $29.90, had been, and would after the special sale be, available to the public at $30? To ask this question is to answer it.

In recent years the electric utility industry and many utility companies in particular, have made considerable strides in developing an intangible asset in the form of stockholder good will and the good will of the security dealers. If, as seems reasonable, the overpricing of common stock offerings to stockholders will result in diminishing or destroying this good will, should not this factor be carefully weighed in comparison with a relatively insignificant additional dilution in earnings which would result from fixing the offering price at a level tending to insure that stockholders and dealers would be satisfied? The importance of good will in a less favorable market must be remembered.

It appears that even in those cases where electric utilities are subject to the competitive bidding requirements of the SEC, the discount from the market price at which the stock is to be offered to the stockholders still remains a matter of policy. This is evident from the fact that in recent periods at least four common stock offerings to stockholders under preëmptive rights were approved by the commission where the offering price was fixed by the company, and only the spread submitted to bidding.

Quite apart from the basic question of preëmptive rights *versus* public offerings, it would appear that where preëmptive rights offerings are either required by charter provisions, or are deemed advisable by the management, the interest of the company and its stockholders would best be served by pricing the new stock at a sufficient discount from market levels to make the rights of appreciable value.

Should Price Levels Affect Depreciation Accrual?

Recent reports of public utility corporations show that management has become worried over the problem presented in the need for replacing retired plant at current high-price levels, although depreciation reserves are being accrued at original low-cost levels.

By CLYDE OLIN FISHER*

"In reading this financial report, you will note that the management of your corporation has set aside a special reserve of $1,000,000 to supplement the depreciation charge permitted by the government as an operating expense in computing taxable income. In this type of business enterprise $200 is required at the present time to replace equipment which cost originally $100. The Bureau of Internal Revenue has declined to recognize this fact and it has become necessary, therefore, after the payment of taxes, to make a further deduction from income for the purpose of preserving the financial integrity and the economic stability of your business. Had the government recognized the increased price levels, and permitted the accrual of depreciation in the light of current prices, your company would have saved $380,000 in taxes this year and this additional sum of money would have been available for dividends to stockholders."

The above statement is a paraphrase of comments found frequently in annual corporate reports for the past few years. For obvious reasons, it does not purport to be the exact phraseology of any specific report. Rather, it might be characterized as typical of the central thought emerging from a number of such financial reports.

The issue posed is one that merits objective analysis and sympathetic treatment. Corporate managements do have a responsibility, for the protection of stockholders, to maintain the financial integrity of business enterprise. If the depreciation permitted

*For personal note, see "Pages with the Editors."

by the government as an operating expense is inadequate to replace plant, prudence and common sense make mandatory a supplement, even though chargeable to net income after taxes, to insure the building up of a reserve that will permit the continued operation and prosperity of the business.

SHOULD this additional reserve come from disposable income, after having felt the impact of a corporate income tax, or should it, rather, be admitted as an operating expense and therefore be deductible in the computation of taxable corporate income? Plausible arguments can be marshaled to support present price levels as a basis for accruing depreciation.

In the judgment of the present writer, these arguments fail to meet the requirements of economic analysis and they find little justification even in the field of financial expediency. This note is an attempt to appraise the issue and to indicate sound economic policy as related especially to the regulated public utility field, although, in a measure, it is equally applicable to the unregulated segment of the economy.

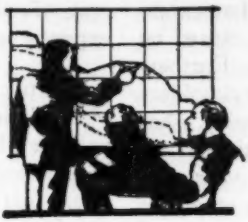
As is well known, the accounting profession has indicated the acceptance of historical cost, rather than cost of reproduction, as a basis for computing a depreciation charge. Perhaps the most widely accepted definition of depreciation, stated in general terms without necessary qualifications, is "an annual charge designed to recover the investment at the end of the service life of the plant." If this be the correct definition of depreciation, it follows inevitably that original cost is the only acceptable basis to use in the accrual of the reserve.

But this may well be a begging of the question and in no sense a correct answer, if the correct definition of depreciation is "the accrual of a reserve which will be adequate to replace the plant at the end of its service life." In that event it follows that reproduction cost or price levels at the time of replacement constitute the proper rate base.

Let us direct our inquiry, therefore, to the development of a valid concept of depreciation and an analysis of the purpose for which it is accrued as an operating expense against the corporation.

IN the so-called Baltimore Street Railway Case (1930) 280 US 234, PUR 1930A 225, 231, Justice Sutherland said, "It is the settled rule of this court that the rate base is present value, and it would be wholly illogical to adopt a different rule for depreciation." If this generalization be accepted as valid, one might reverse the statement—and such a reversal would be logical—and say, "It is the settled rule of this court that present value is a proper base for depreciation, and it would be wholly illogical to adopt a different rule for the rate base." But this does not settle anything. The conclusion in both cases is predicated upon the validity of the principles accepted in the beginning. Is either premise valid?

In the Hope Case (1944) 320 US 591, 51 PUR NS 193, the successors to Justice Sutherland made a categorical reversal of the position of the court and declared that depreciation should be computed on the basis of investment rather than on that of cost of reproduction. Here again the con-



A Cost Definition of Depreciation

"PERHAPS the most widely accepted definition of depreciation, stated in general terms without necessary qualifications, is 'an annual charge designed to recover the investment at the end of the service life of the plant.' If this be the correct definition of depreciation, it follows inevitably that original cost is the only acceptable basis to use in the accrual of the reserve."

clusion of the court in 1944 follows inevitably upon the acceptance of the premise of investment, rather than cost of reproduction, as a rate base. The present writer has elsewhere indicated his preference for the conclusions reached in the Hope Case, with some qualifications, as distinguished from those enunciated in the Baltimore Street Railway Case. What follows represents an attempt to justify that preference.

The first, although by no means the most significant, argument against the use of present prices as a basis for computing depreciation arises from the uncertainty as to what charge should be made. No accountants would ever be able to determine whether or not the amount charged as an expense would be adequate or more than adequate without first ascertaining the price levels that will obtain at the time of replacement of property. This would become a continuing problem, making any report of earnings even more of a sophisticated guess than is the case at the present time.

IF replacement cost is sound, the annual accrual should be made at a rate which will give at the end of a service life of a plant a sum of money which will be adequate to replace that plant when replacement becomes necessary. In many instances this would necessitate a prognostication of prices for a decade or perhaps more than a decade. No accountant, no economist, and no financial soothsayer possesses a crystal ball which will enable him to make such prognostication that is anything more than a sophisticated guess, perhaps even more hazardous than a wager on the Irish sweepstakes.

Accounting, on such a basis, would be an exercise in mental arithmetic, having little relevancy to the facts of life. There is no formula whereby a corporation could avoid finding itself

at the time plant must be replaced either with the "windfall" of an excessive reserve or the distress caused by a deficiency in such reserve. Furthermore, management and stockholders would have no way of knowing what net income had been at the time of reporting operations for any year. Income reports would become economic post-mortems.

Another indictment against the use of present price levels in the computation of depreciation charges arises from the fact that such procedure gives a protective tariff to existing plants as opposed to new enterprises that might otherwise arise. Just recently there has been a good deal of agitation to construct a steel mill in New England. One handicap in the construction of such a mill arises from the fact that the promoters of the new enterprise would have to invest perhaps $200 in competition with existing plants which operate on a basis of the $100 invested at an earlier period during which construction costs were lower.

This is inevitable with a general change in the price levels and perhaps there is nothing that can be done about it if we permit excessive swings in the price levels. That is another story. But it would add to the irony if the older plants were permitted, particularly at the cost of the taxpayer, to perpetuate the unfair advantage against the newcomer. The new investor, presumably, would have to supply $200 which had come from income, after the payment of taxes, to compete with an existing plant which would need at some time in the future to accrue $200, 38 per cent of the second $100 of which represented tax credits to present owners and 62 per cent of which was, as an operating expense, contributed by ratepayers.

WHILE it may not be possible to eliminate the competitive advantage which existing industries have in a period of higher prices, it is not clear that governmental tax policy should penalize investors in new companies by a perpetuation through tax subsidy of the disadvantage to which they are subjected.

While the reasons cited hereinbefore point to the undesirability of the utilization of cost of reproduction in the computation of a depreciation expense, another consideration is of greater significance, particularly as applied to the public utility industry: Such a policy is inconsistent with the accepted responsibility of owners to supply the capital upon which they claim the right to earn a return.

A simple illustration will show the fallacy implicit in the claims of management. Suppose an electric company installs a pole at a cost of $50. If the pole has a service life of ten years, straight-line depreciation would necessitate a charge of $5 a year as a depreciation expense and the corporation would have the right to earn a return upon the original $50 investment, this in addition to the accrual of the depreciation reserve. If at the end of the 10-year period $100 is needed to replace the pole, then stockholders have to supplement the $50 in the depreciation reserve by making an additional investment of $50.

Now, they have the right, if investment be used as a base, to get a return on $100, the $50 invested originally and recouped by the depreciation re-

serve and the $50 additional made necessary by the higher price levels. The right to get a return on the second increment of the $50 is just as strong as is that to get a return on the original $50 investment. It is on the same basis as an investment of funds to provide extension of service into new areas. The replacement of plant at prices higher than those prevailing at the time of original construction might well be called an extension of plant into a new time period rather than into a new geographical area.

IF, on the other hand, the corporation is permitted to change its depreciation accrual in the light of advancing prices, and if at the end of ten years, because of the stepped-up rate of depreciation, the corporation has $80 in the reserve for the replacement of the $50 pole, now costing $100, the stockholders will need to make an additional investment of only $20.

The records of plant investment will show, following the replacement of the pole, that $100 was actually used. This latter sum, according to accepted standards of regulation, is the basis upon which owners would have the right to claim a return. But $30 of this money will have been contributed by the ratepayers and the stockholders will have become the willing beneficiaries of a capital contribution financed by someone other than themselves. This approaches the traditional pastime of eating one's cake and having it too. Why should an owner get a return on what he has invested and at the same time claim a profit on an involuntary contribution made by his past customers?

If the analysis presented herein is valid, it shows that investment, rather than current price levels, constitutes the proper base upon which to compute depreciation as an operating expense.

This does not mean that corporate management should refrain from setting up additional reserves, chargeable against net income, for the purpose of meeting the requirements of higher capital costs. But these higher capital costs will be an investment on the part of management just as truly as was the original commitment, and they should be treated in exactly the same manner. The utility is entitled to a fair rate, but a fair return does not necessitate the acquiescence in "phony" accounting procedure and economic "make-believe."

Britain's Jail-house Socialism

"THE walls of the prison close in day by day; the area of enterprise shrinks. Day by day the ceiling of opportunity is lowered. We prisoners are charged more for the expense of multiplying jailers. Food and drink diminish in quantity and quality month by month. There is no incentive to bold undertakings except a heartless propaganda which urges all dogs collectively to jump the moon while keeping chained each dog with a spring or heart in him.

"Socialism, as now interpreted here in England, is competition without prizes, war without victory, and statistics without end."

—EXCERPT *from London Sunday Times.*

Washington and the Utilities

REA Super Co-op Loans

REA loans for generation and transmission federations, as of April 6th, exceeded a quarter of a billion dollars. Twenty-seven of these so-called super co-op loans have now been allotted. Five loans went to Missouri; three each went to Iowa, Minnesota, and North Dakota; two each went to Michigan and Texas; and one each went to Alabama, Arkansas, Kentucky, Michigan, Oklahoma, South Carolina, Utah, Virginia, and Wisconsin. (See table, page 691.)

Of special interest is the loan made in North Dakota for $4,033,000 for building a 7,500-kilowatt steam-generating station. Although this loan is made to a coöperative, the power facilities will be rented to a private power company over the length of the loan. Rentals from this lease will repay the co-op loan to Federal REA. At the end of the lease, the private company will have the option to buy the facilities outright. Meanwhile, the company will operate them. This seems to be putting the "reverse twist" on the REA super co-op "lease-back" arrangements with Southwestern Power Administration, about which private companies have been complaining. However, the North Dakota setup is a small drop in a big bucket and may be the only definite example of the "reverse lease back."

Using the phrase "lease back" calls to mind the arrangements made by some telephone companies on the West coast for obtaining the use of office buildings and other properties in which institutional investors, such as insurance companies, have invested funds. (See feature article in this issue, page 673.) In this "all private" version of the "lease-back" setup—the institutional investors are supposed to get a long, safe, well-paying spot for their deposited funds, while the operating company has the use of the properties for a stated rental, plus use of its own capital funds for other purposes. Of course, the REA-SWPA "lease-back" version makes use of taxpayer funds at a subnormal interest rate (2 per cent) over a fairly long period (thirty-five years)—which may put a somewhat different light on the proposition, depending on one's viewpoint.

Speaker Favors SWPA-Company Pacts

In one of his rare floor speeches, May 3rd, Speaker Rayburn of the House of Representatives pointedly rebuked the spokesman for the national association of REA coöperatives for "stirring up trouble" over the SWPA-company contracts. The following colloquy, of interest to all concerned with Federal-private company negotiations to reach an agreement on public power districts, took place on that date:

Mr. Rayburn. Well, I hope that the contract is signed. I have seen it; I have gone over it very thoroughly, as I did the Texas Power & Light Company contract. I think it is a good contract, and I trust that the Secretary of the Interior does sign it. . . .

Mr. Cannon (Democrat, Missouri). I am told that the Secretary and the friends of REA are opposed to the Texas contract and do not think it ought to be signed in this form.

Mr. Rayburn. It does not make any difference to anybody whether or not they are opposed to the Texas contract.

It has been in operation for more than two years.

The Secretary of the Interior found some parts of the contract to which he is objecting. I am trustng that Mr. Wright and the power companies can get together and yet bring about an amendment to that contract that the Secretary of the Interior will sign.

MR. CANNON. I am not familiar with the merits of the various forms of contract but it is my understanding that the coöperatives in my state and other states do not favor the Texas contract and as a result this particular contract has been on the desk of the Secretary for many weeks; for a very long time, at least.

MR. RAYBURN. It has not been there a very long time. I hope the gentleman does not get me into personalities, but I know there is one man in the country that claims to represent the co-ops of the country, but the principal thing he is doing is going around stirring up trouble between the Southwestern Power Administration and the co-ops of the country. He is performing no service, in my opinion, either to public power or to the co-ops.

MR. NORRELL. Mr. Chairman, will the gentleman yield?

MR. RAYBURN. I yield to the gentleman from Arkansas.

MR. NORRELL (Democrat, Arkansas). May I say to the Speaker and to the House that I think you know how I have felt all along about public and private power. They tell me the Texas contract has acted decently, and has been a constructive step in the relationship of public and private power. It was a good step.

The Speaker is correct when he says that the Oklahoma utilities will enter this same contract. May I say to the Speaker that the Arkansas utilities will do the same thing.

I join the Speaker in asking that this contract, similar to the Texas contract, be approved by the Secretary of the Interior regardless of what somebody may say because, as the Speaker has so well said, some people want to take over the whole thing and make it public, while others would not have any public power at all. As the solution is reached here, public and private power can live together, if the Interior Department will be governed by what the gentleman from Texas [Mr. Rayburn] has said.

Public Utilities under the Amended Federal Wage-Hour Law

THE January 25, 1950, amendments to the Fair Labor Standards Act—the Federal Wage-Hour Law—make no change with respect to application of the law's minimum wage and overtime pay provisions to employees of public utilities furnishing heat, light, power, and water. But the amendments make the statute's child-labor provisions more meaningful in the utility industries by placing a direct prohibition on the employment of young boys and girls.

As before the amendments, public utility employees come within the scope of the Wage-Hour Law's application because of their relationship to the production of goods for commerce. This means that the new minimum wage requirement of 75 cents an hour and the overtime pay requirement, which still provides for time and one-half of employee's regular rate of pay for work, after forty hours in a workweek, apply to employees of the utilities.

Operators of heat, light, power, and water establishments, therefore, should be concerned about their compliance with the Wage-Hour Law's provisions. Most recent investigation results by the wage and hour and public contracts divisions of the U. S. Department of Labor, for the year ended last June 30th, found more than $350,000 in back wages due to nearly 2,300 employees in heat, light, power, and water establishments. The back wages were owed because of failure to pay overtime for work after forty hours in a workweek, and even for failure to pay the minimum wage—then 40 cents an hour.

BEFORE the amendments took effect, employees of public utilities were within the scope of the Wage-Hour Law because their work was "necessary" to the production of goods for interstate commerce by the plants to which they provided services. Under the amendment, the word "necessary" was removed from the law, and the phrase "in any closely related process or occupation directly essential to the production" of goods for interstate or foreign commerce was substituted as a test for determining which employees are within the scope of the law's provisions.

However, in making this change the Congress specifically stated that "employees of public utilities, furnishing gas, electricity, or water to firms within the state engaged in manufacturing, producing, or mining goods for commerce, will remain subject to the act," because such employees "are doing work that is closely related and directly essential to the production of goods for commerce."

By placing a direct prohibition on the employment of young boys and girls employed in interstate and foreign commerce or in the production of goods for such commerce, including those "in any closely related process or occupation directly essential to the production," the amendments make the child-labor provisions generally applicable where the minimum wage and overtime pay provisions apply. Therefore, employers in the public utility industries must now give closer attention to the Wage-Hour Law's provisions, under which boys and girls may not be employed under the minimum age of sixteen for general employment, and under eighteen in specific occupations found by the Secretary of Labor to be hazardous. However, minors fourteen and fifteen years old may be employed in office work outside of school hours under specific hour limitations.

Under the amendments, as before, the Wage-Hour Law provides specific exemptions for certain so-called "white-collar" workers. These exemptions are subject to revised regulations (Part 541) issued by the administrator of the wage and hour and public contracts divisions of the U. S. Department of Labor, and apply to employees employed in bona fide "executive," "administrative," "professional," "local retailing," and "outside salesman" capacities.

Since employers must prove the applicability of an exemption of this type, they are advised to consult the divisions for guidance. Regional offices are maintained by the divisions in Boston, New York city, Philadelphia, Cleveland, Birmingham, Chicago, Kansas City, Dallas, and San Francisco. Inquiries should be directed to the nearest regional office.

Primaries Alter Washington Scene

THE shadows of early primaries, notably the defeat of Senator Claude Pepper (Democrat, Florida), are wrinkling administration brows. President Truman told a recent press conference that Pepper's defeat by young Representative George A. Smathers was of no national significance. This battle, the President said, was fought along state and local issues, but there are many who disagree with the President.

Smathers, a young Marine Corps veteran of World War II, pointedly made an issue of the socialistic nature of the administration's "Fair Deal" program which includes, among other things, continued expansion of public power. It is now noticeable that congressional advocates of economy, encouraged by the Pepper defeat, seem to believe that bucking administration spending does not necessarily forfeit public support at the polls. There now seems a certainty that two spending bills of the Fair Deal are headed for quiet demises in committee pigeonholes. They are (1) the Central Arizona Authorization Bill (S 75) already approved by the Senate, and (2) the White Bill (HR 5264) to authorize Bureau of Reclamation developments on the Kings river in California.

The Central Arizona measure went into limbo when the Irrigation and Reclamation Subcommittee of the House Committee on Public Lands approved a reso-

lution to defer action until June 15th, pending replies by the Budget Bureau to pertinent queries dealing with irrigation and economic phases of the $738,000,000 project. The resolution, sponsored by Representative Fred L. Crawford (Republican, Michigan), caught sponsors of the measure by surprise, but a 13-to-10 subcommittee vote was effective.

OPPONENTS of the White Bill, which would in effect nullify a license granted by the Federal Power Commission to the Pacific Gas and Electric Company for construction of a hydroelectric development on the Kings river, have made strong presentations before the House Public Lands Committee. The fact that White's long-dormant measure became suddenly active on the eve of rehearings before the FPC on the issuance of a license to PG&E (for Kings river development) made no favorable impression on committee members. In fact, some have expressed the view that public power advocates are trying to "pull a fast one."

With the legislators struggling for mid-July adjournment, it is not too risky to predict that the Arizona project and the White Bill will die with the 81st Congress. On the Senate side, Reclamation Bureau officials have undergone sharp, caustic criticism because of their failure to enter into wholehearted negotiation for contracts between private power companies and the Southwestern Power Administration.

EXTENT OF REA SUPER CO-OP LOANS

REA-financed Generation and Transmission Federation As of April 6, 1950

System Location	*Amount Of Loans*	*Authorized KW Capacity*	*Number of Plants*			*Miles of Authorized Line*	*Distribution Co-ops In Federation*
			Diesel	*Steam*	*Hydro*		
Mississippi	$2,100,000	12,500		1		232	10
Virginia	14,320,000	34,500		1		888	11
South Carolina	7,595,500	Transm. only				834	16
Texas	14,730,000	34,500		1	1	1,092	18
Alabama	7,640,600	9,000	2		3	576	5
Kentucky	12,265,000	40,000		1		597	18
Michigan	5,532,000	9,899	5			347	3
Michigan	6,661,000	15,100	3	1	4	335	3
Iowa	6,100,000	5,760	1			330	5
Iowa	10,165,000	40,000		1		415	8
Iowa	15,556,686	25,555	9	1		617	11
Minnesota	13,795,472	22,920	5	1		671	6
Minnesota	1,500,000	3,195	1				1
Minnesota	1,540,000	4,725	2			109	2
North Dakota	13,678,500	31,460	2	1		1,193	10
North Dakota	4,033,000	7,500		1		206	14
North Dakota	8,521,000	45,000		1		Gen. only	8
Wisconsin	42,262,540	119,150	3	3	2	2,002	25
Arkansas	1,800,000	Transm. only				102	18
Missouri	4,892,486	4,575	4		1	576	11
Missouri	2,900,000	10,000	1			112	8
Missouri	8,186,000	23,940	1	1		378	5
Missouri	11,350,000	15,000		1		465	6
Missouri	18,393,000	40,000		1		835	7
Oklahoma	13,482,000	33,300		1		912	11
Utah	7,885,000	29,029	4	1	4	450	5*
Texas	780,000	4,000	1			None	2
Total	$257,664,784	620,608	44	19	15	14,274	247

*Under stop order.

Exchange Calls And Gossip

Committee Cuts Phone Taxes

THE House Ways and Means Committee recently agreed tentatively to slash communications taxes. The cuts, announced by Chairman Doughton (Democrat, North Carolina), for inclusion in the proposed 1950 revenue bill, were as follows:

1. Local telephone bills, cut from 15 per cent to 10 per cent for residences. For business concerns the tax remains 15 per cent.
2. Short tolls, that is, surburban calls where the charge is less than 24 cents, would be cut from 15 per cent to 10 per cent, both for businesses and residential purposes.
3. Long-distance telephone and radiotelephone calls, cut to 20 per cent from 25 per cent.
4. Domestic telegraph and radio and cable dispatches cut from 25 per cent to 10 per cent.
5. Leased wires would be cut from 25 per cent to 20 per cent, but the 8 per cent rate now imposed on stock quotation wires, burglar alarm wires, and wire equipment services would be unchanged.
6. For international cable and radio communications the existing 10 per cent rate would remain unchanged.

Committee statisticians calculated that the cuts would reduce revenue from communications $117,000,000.

THE committee subsequently rejected the Truman administration's proposal for a 10 per cent manufacturers' tax on television sets. John W. Snyder, Secretary of the Treasury, had recommended that the excise levy applicable to radios be extended to television receivers "in the interest of tax equity." The committee, however, held that such an impost would be unduly harmful to the infant industry, which is just beginning to make money after heavy capital outlays and early losses.

The administration proposal was calculated to produce about $40,000,000 of revenue annually, to help offset the $695,000,000 of excise tax reductions recommended by President Truman. Telephone companies are obviously disappointed with the small amount of the excise tax cut voted. The fact that a distinction is made between residential and business subscribers would even impose a fresh burden on them, it is claimed.

REA Phone Program

OFFICIALS of the Rural Electrification Administration recently were reported perplexed over the action of the House Appropriations Committee in cutting the appropriation for the telephone loan program. REA people do not now think the rural program can proceed as scheduled.

Representative Poage (Democrat, Texas), one of the authors of the new REA rural telephone law, admitted in the House last month that since the law has been in effect, telephone companies have been going ahead rapidly on rural service without REA loans. Instead of asking for a restoration of the cut, however, Poage observed that the aims of the bill were being accomplished because farmers are getting more telephone service.

REA officials agree that the telephone loan program will never remotely approximate the size of the electrification program. The chief reason is that farmers are less willing to pay sizable equity contributions in order to get the telephone service than they are to get rural electric service.

Phone Rate Rise Delayed

THE New Jersey Board of Public Utility Commissioners recently suspended until August 21st the new intrastate schedule of telephone rates filed by New Jersey Bell Telephone Company, asking an increase of $9,800,000 in revenues, pending a hearing on May 16th.

The new schedule would raise the basic intrastate exchange telephone rates, intrastate message tolls, and corresponding local message units. It would hike the charge for calls from public pay stations from 5 to 10 cents and reduce the time limit on calls from five to three minutes.

It also would provide additional charges for certain equipment.

The commission's order stated that the hearing was set to determine the "justice and reasonableness of the proposed increase." The commission announced that it first would hear testimony on the company's request for immediate relief of $1,800,000 to meet additional expenses growing out of the recent wage award granted to its employees by a state arbitration board. An arbitration award last month granted $2.50-a-week wage increases to 11,000 New Jersey telephone operators. It was hailed by the Communications Workers of America, CIO, as "the first significant break in the current dispute."

New Jersey Bell has announced it will bring suit challenging the validity of the award. The union had hoped that the arbitration decision might serve as a pattern for averting strikes by telephone workers throughout the country. A spokesman for the union said the chance of having the arbitration award set aside "is impossible" in the face of the evidence submitted at the arbitration hearings.

Antigambling Bill before Committee

THE telephone industry has rallied in opposition to the administration's antigambling bill (S 3358) recently introduced by Senator Johnson (Democrat, Colorado). This bill forbids the telephone, telegraph, radiotelevision, or other communication services to allow the use of their facilities to disseminate any race track information until one hour after the event. The bill would impose upon telephone companies the duty of supervising service in such a way as to spot bookies and other illicit operators.

It would require the Federal Communications Commission to supervise the telephone companies in this respect.

After considerable testimony on the impracticability and undesirability of making policemen out of telephone companies, even Chairman Johnson of the Senate Interstate Commerce Committee conceded the weakness of the bill, admitting it would only be enforced by wiretapping and other questionable methods. He indicated it was introduced at the request of Attorney General McGrath.

Chairman Wayne Coy of the Federal Communications Commission appeared before the Senate subcommittee, headed by Senator McFarland (Democrat, Arizona), in opposition to the Justice Department bill. He said it would impose too much of a burden on the FCC and the communications companies. Instead, Coy suggested an FCC version which would make it a crime to send information by wire, radio, or printed publicity as to bets, odds, and other data specially required for gambling operations. It would impose no special obligation on the communication carriers or the FCC.

Political overtones were heard to the effect that the subcommittee's work may be a partial diversion in the Senate from the demand Republicans are making for an investigation into big city political

machine connections with the underworld.

Color Television Standards

BRIGADIER General David Sarnoff, chairman of the board of the Radio Corporation of America, recently urged the Federal Communications Commission to set color television standards based on the RCA all-electronic completely compatible color system. At the conclusion of hearings before the FCC, Sarnoff said that if this is done, color television receivers will be in factory production by June, 1951.

He condemned the Columbia Broadcasting System method as "inferior" and "unsound," stating that its adoption would earn the scorn of the world and impose an extra cost of more than $100,000,000 a year on the American public for adaptation of black-and-white receivers.

Emphasizing that there is no doubt about the desirability of color television, General Sarnoff said that the fundamental issue in this case is: "Shall American television move forward or backward?" He pointed out that CBS has asked the FCC to adopt standards based upon a "mechanical, noncompatible system, which gives a degraded picture and has additional defects."

He expressed the opinion that the demonstrations made and the testimony submitted in the hearings have proved that color television has advanced technically to a point that justifies the commission in setting standards now on a regular commercial basis. "This would enable broadcasters and manufacturers," he said, "to proceed promptly with their plans for providing the public with programs and equipment to receive the benefits of color television."

In addition, General Sarnoff described three basic requirements which he said RCA believed color television standards should meet. They are: (1) a channel width of 6 megacycles, as proposed by the commission; (2) the color pictures, by whatever system transmitted or received, should not be inferior in quality and definition to present black-and-white pictures; (3) the color system should be compatible with existing black-and-white standards.

Testimony Ends

THE Wisconsin Public Service Commission finished hearing arguments recently on the method it should use in setting rates for the Wisconsin and Commonwealth Telephone companies. Madison and Waukesha city attorneys said the commission should use the exchange method, under which separate rates would be fixed for each company exchange on the basis of local costs and earnings.

The two companies want the commission to use the system-wide basis, that would give exchanges of similar size the same rates.

The question of rate-fixing methods came up in connection with the Wisconsin Telephone Company's request for a $5,863,000-a-year rate boost and Commonwealth's petition for an increase of $625,000 annually.

Madison City Attorney Harold Hanson charged that the system-wide basis discriminates against customers in the biggest cities by making them pay more for their phone service. "In any case," he said, "the position of the city of Madison is that no increase is warranted" for the Wisconsin Telephone Company.

Waukesha City Attorney Richard Hippenmeyer tried to get the commission to strike out all Wisconsin Telephone Company testimony on the system-wide basis, and all testimony on the financial status of the parent, American Telephone and Telegraph Company. The commission overruled both his motions.

Francis Hart, Wisconsin Telephone Company attorney, defended the system-wide basis, saying it would promote development of telephone service and insure stability of rates. Present rates are fixed on a mixture of the two systems.

Final arguments in the long rate hearings were scheduled for May 25th.

Planning Video Center

GOVERNOR Alfred E. Driscoll, of New Jersey said recently that his state is planning "a great television center for the nation" just across the Hudson river from New York.

Driscoll said plans are still in the formative stage, but the present proposal is to establish a video center, with transmitters and studios located together, on the Jersey side of the Hudson between the Holland tunnel and George Washington bridge. He told newsmen that the state stands ready to acquire land for the center and provide roads and other facilities if the plan becomes a reality.

Rate Increase Sought

MOUNTAIN STATES TELEPHONE & TELEGRAPH COMPANY last month asked the Montana Public Service Commission for permission to increase rates in that state. A spokesman for the company said the increase on main business telephones would be about 5 cents a day and the maximum residence service increase would not exceed 2½ cents a day. The company also asked increases in rates for other services and equipment "in keeping with increased operating expenses and the requirements for additional revenues."

In an order issued March 22, 1948, the commission turned down a company request to increase residential telephone rates 50 cents a month. The commission granted company requests for increased charges on business telephones, exchange and toll service which the company estimated would bring in an additional $317,917 a year.

FCC Telemagnet Case Deferred

THE Federal Communications Commission has continued, until June 19th, the hearings in the so-called "Telemagnet Case." These proceedings involve complaints by the Jordaphone Corporation of America against the American Telephone and Telegraph Company and Bell system companies, which seek to require the connection of devices for automatically recording messages via the telephone in the absence of the telephone subscriber. Hearings were held late in April before an FCC examiner, with Chairman John McCarthy of the Michigan Public Service Commission sitting as a coöperating state commissioner.

At the hearings, manufacturers of two other automatic telephone answering devices, Electronic Secretary Industries, Inc., of Milwaukee, manufacturers of the Electronic Secretary, and Telemaster Company, manufacturers of the Telemaster, both interveners in the proceeding, presented testimony and demonstrated the operation of their respective devices, along with the presentation by the makers of Telemagnet. The Telemagnet and the Electronic Secretary operate by means of induction. Lifting the handset of the telephone from the cradle starts their functioning. The Telemaster device operates by way of physical connection to the telephone instrument.

THE question the FCC must decide is whether the Bell system companies may lawfully prohibit their customers, under the "foreign attachment" provisions of such company tariffs, from using the Telemagnet device, and the others, in connection with interstate or foreign telephone service. The complainants presented considerable testimony at the hearing relating to the public demand for automatic telephone answering devices, and the use and operation of the devices. Representatives of Telemagnet predicted sales of approximately 30,000 devices in a year if their use is authorized; Electronic Secretary foresaw thousands of orders; and Telemaster stated it had orders for 2,000 sets from two sources.

Cross-examination of witnesses for the manufacturers will be featured at the hearings, beginning June 19th, to be followed by testimony for the Bell system companies, as well as for the United States Independent Telephone Association and others. Among appearances filed was that of the assistant general solicitor of the National Association of Railroad and Utilities Commissioners.

Financial News and Comment

By OWEN ELY

Dividend Policy

JOHN F. CHILDS, writing in the March 30th FORTNIGHTLY ("Some Comments on Dividend Policy") pointed out that in recent years emphasis has shifted from the *price-earnings ratio* to *yield* as the major yardstick for appraising the investment position of utility stocks. He called attention to the success of AT&T in doing equity financing on a huge scale, because thousands of small investors have implicit faith in the $9 dividend, even though it does not always appear well secured by share earnings. He concluded, however, that no definite percentage of pay-out for the industry can be set up since many companies are subject to special factors which cause fluctuations in their earning power. Nevertheless, he felt that there was little justification for an overconservative policy, and that in any event the managements should take stockholders into their confidence regarding dividend policy, and the reasons therefor, to a greater extent than now seems customary in the industry.

Speaking for the electric utility companies, Vice President Will Stanley of Southwestern Public Service Company has been a protagonist of liberal dividend payments, as an aid to the repeated equity financing which his company has handled so successfully. Also, Charles Tatham, Jr., vice president of Institutional Utility Service, Inc., recently stated:

> In the past it has been the practice of independent electric operating companies to pay out in dividends on average around 80-85 per cent of earnings available for the common stock and, in our opinion, the economics of the business warrant a return to this policy.

MR. TATHAM'S conclusion was based on the 20-year record (during 1929-48) of ten utility companies whose stocks have been in the hands of the public during that entire period—Boston Edison, Consolidated Edison of New York, Commonwealth Edison, Consolidated Gas of Baltimore, Pacific Gas and Electric, Southern California Edison, Tampa Electric, Detroit Edison, Central Hudson Gas & Electric, and Cleveland Electric Illuminating. The chart on page 699 shows the average dividend pay-out, price-earnings ratio, and yield for this group of stocks for the 24-year period

DEPARTMENT INDEX

1926-49, based principally on data supplied by Institutional Utility Service.

Referring to Mr. Tatham's conclusion based on the high average pay-out of these companies, it may be of interest to analyze the history of these dividend payments. The 20-year average used by Mr. Tatham includes the abnormal periods 1931-34 and 1942-45, when yields were abnormally high due to depressed stock market conditions. In such periods there is apparently a tendency for managements to be more liberal with dividend payments, in an effort to sustain stock prices.

During the period 1926-29 when stock prices were bounding upwards, there was no pressure for liberality, and the ten companies paid out only about 63 per cent of their earnings. In 1932-34, however, with stocks at record low levels, the pay-out averaged nearly 100 per cent. (Earnings, of course, were somewhat lower.) With the rising markets of 1944-46, however, the pay-out dropped from 92 to 74 per cent—followed by an advance to 83 per cent in the two irregular years that followed. With good stock markets again prevailing, however, the pay-out dropped to 76 per cent in 1949.

Figures for the ten companies in 1949 were as shown in the table below.

EXCLUDING Boston Edison and Pacific Gas and Electric, the average pay-out for the eight remaining companies in the group would have averaged 71 per cent in 1949, compared with 70 per cent for all class A and B electric utilities (as disclosed in the FPC December bulletins on earnings and dividends). These two companies show a different record for special reasons: Boston Edison pays out virtually all its earnings because it does not wish to increase earned surplus so long as there is no assurance that this will be considered part of the rate base. Pacific Gas and Electric's high pay-out is due to temporary subnormal earnings and the company's desire to maintain the $2 rate paid for many years; under normal hydro conditions, and with the full benefit of the rate advances recently granted by the California commission, earnings might be considerably higher and the percentage pay-out lower.

Many utility companies—probably 80-90 per cent of those whose stocks are now in the hands of the public—have emerged from holding companies in recent years. In some cases they were heavily capitalized, as often happened in the old promotional days; and in almost all cases they have been required to absorb heavy write-offs to restore plant account to an original cost basis. The common stock equity has borne the full burden of these adjustments, with the result that (despite cash contributions by the holding companies) the equity has not much exceeded the "minimum" level of 25 per cent, and in two or three cases (with special SEC dispensation) has been materially lower. The average for all electric utilities still holds around 37 per cent level but elimination of 100.5 and other intangibles would probably lower this to 32 per cent.

	Aver. Price	*Dividend*	*Share Earn.*	*Yield*	*P-E Ratio*	*Per Cent Pay-out*
Boston Edison	43	$2.80	$2.91	6.5%	14.8	96%
Central Hudson G. & E.	8⅛	.52	.65	6.1	13.1	80
Cleveland Electric	40½	2.20	3.06	5.4	13.2	72
Commonwealth Edison	26	1.53	2.13	5.9	12.2	72
Consolidated Edison	25½	1.60	2.22	6.3	11.5	72
Consolidated Gas of Baltimore	22	1.20	1.52	5.5	14.5	79
Detroit Edison	21⅛	1.20	1.73	5.6	12.4	70
Pacific Gas & Electric	32	2.00	2.06	6.3	15.6	97
Southern California Edison	32⅛	1.75	3.19	5.4	10.2	55
Tampa Electric	30	2.00	3.01	6.7	10.0	67
Averages				6.0%	12.8	76%

BECAUSE of these conditions, most utilities apparently consider it desirable to build up their common stock equity ratios to a considerably high level, and the only ways to do this are to plow back earnings, or do substantial equity financing. Where the stock is being "sold out" by a holding company, there may be a little tendency to make the pay-out above average; for instance, Toledo Edison, which is currently being sold to its own stockholders on a subscription basis by Cities Service, is paying 70 cents out of *pro forma* earnings of about 87 cents —a pay-out of 80 per cent; however, earnings of 95 cents are forecast for 1950, which would reduce the figure to 74 per cent.

On the other hand, President Watt of Kentucky Utilities Company seems to take a more conservative view of dividend pay-out in a recent talk before the New York Society of Security Analysts. The company earned $1.48 in 1949 and is expected to earn $1.80 this year, but pays only 80 cents. Mr. Watt, in humorous vein, asked the society members for "guidance." He cited his reasons for a conservative dividend policy as follows: (1) Prewar power plant, now carried on the books at $35,000,000, would cost $50,000,000 to replace. (2) Regulatory bodies watch dividend policies closely. (3) It had previously been suggested by some analysts, he said, that if utility companies wish to do equity financing, liberal dividends should be paid in order to get a better price for the new stock; but he felt that the over-all burden of such an increase in the dividend rate paid on *all* stock may be a heavy price to pay (statistically) for obtaining a better price for the *additional* stock.

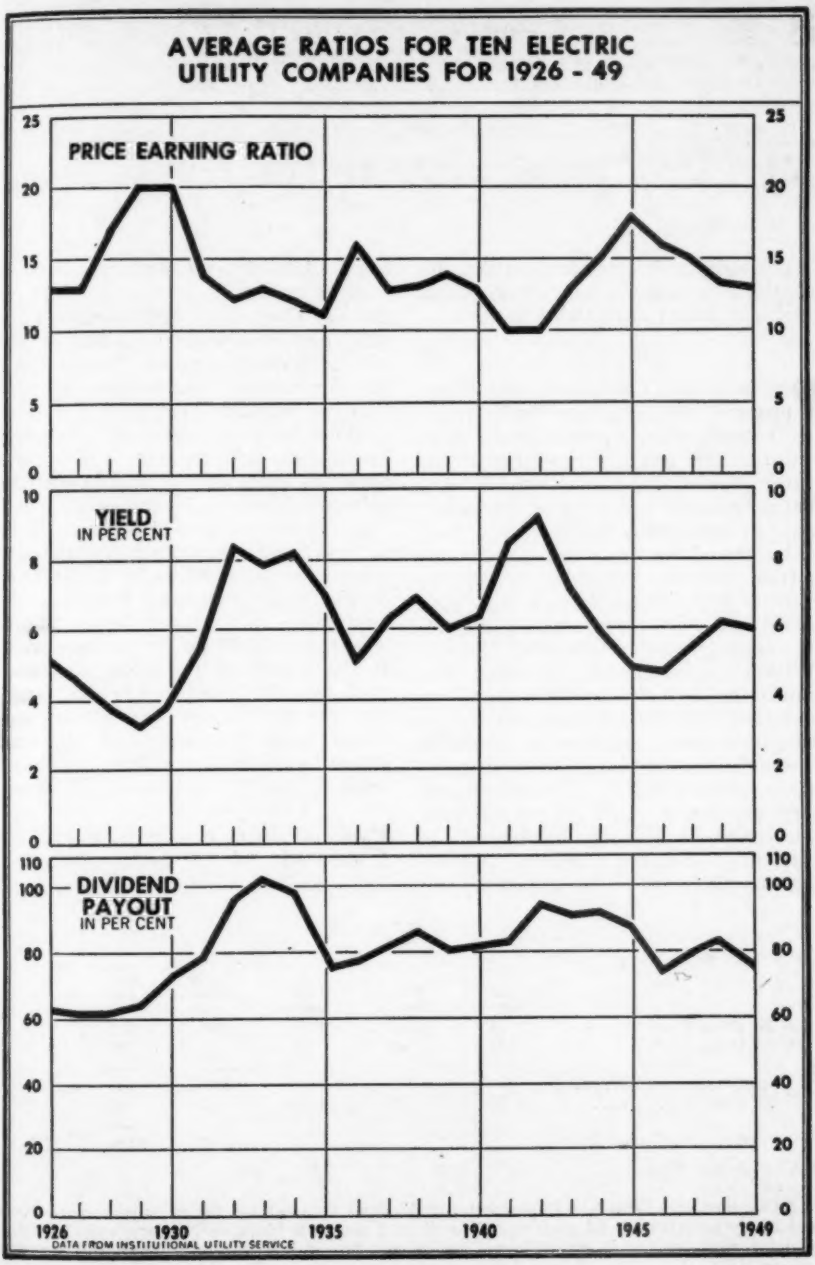
EACH company must, of course, take into account all the special factors involved, in determining dividend policy. The New England companies, with their high stock equities, can take a more liberal attitude, particularly as this fits into the New England common stock tradition. Companies like Southwestern Public Service, which carry down a very substantial percentage of gross to net available for common stock, has reason for liberality, because net income is less subject to leverage fluctuations. On the other hand, companies like Consolidated Edison, Public Service Electric & Gas, and Philadelphia Company, which bring down only about 7 per cent of gross to common, are constrained to be conservative because of greater fluctations in the balance for dividends, due to the relatively high cost of operation.

In general, companies which can confidently anticipate or budget an increase in share earnings are in better position to be generous to stockholders than those companies which face a declining or irregular trend. Companies which must face certain restrictive regulatory policies or an unfavorable political atmosphere must "watch their step" in making dividend changes. In any event, it seems safe to say that no utility can raise dividend rates unless the management feels reasonably confident that the higher rates can be maintained; investors in utility stocks do not seem to like the variable dividend policies which many industrial companies follow.

Standard Gas & Electric

THE Standard Gas & Electric system is the largest and most complicated of the few remaining holding companies which must be dissolved under the Holding Company Act. The picture is complicated because of the 4-tier holding company setup—Standard Power & Light, Standard Gas & Electric, Philadelphia Company, and Pittsburgh Railways. Another complication is the 3-way allocation which must finally be made to the holders of the four classes of stock of Standard Gas. For these reasons there has been a considerable amount of statistical research and conjecture regarding the break-up values for the seven holding company stocks involved—two of Standard Power & Light, four of Standard Gas, and one of Philadelphia.

Standard Gas & Electric's portfolio is valued as shown in table, page 700.


AVERAGE RATIOS FOR TEN ELECTRIC UTILITY COMPANIES FOR 1926 - 49
PRICE EARNING RATIO
25
20
15
10
5
0
YIELD
IN PER CENT
10
8
6
4
2
0
DIVIDEND PAYOUT
IN PER CENT
110
100
80
60
40
20
0
1926
1930
1935
1940
1945
1949
DATA FROM INSTITUTIONAL UTILITY SERVICE

No. Shs. (000)		*Price*	*Amt. (Mill.)*
5,025	Philadelphia Company	22	$111
550	Oklahoma G. & E.	42	23
1,625	Wisconsin P. S.	20*	32
133	Louisville G. & E.	35	4
			$170**

* Twelve times $1.71 earnings for twelve months ended March 31, 1950.
** It is estimated that the eventual cash balance will be ample to retire the moderate bank loan.

The company's capitalization and the possible claims of the various classes of stock are shown in the table below.

PHILADELPHIA COMPANY'S dissolution program has made considerable progress recently with (1) the disposal of its entire natural gas holdings for approximately $63,000,000 (including $17,500,000 debentures and $45,755,000 cash), and (2) approval by the SEC and a Federal court of the recap plan for the important transit subholding company, Pittsburgh Railways (which it is estimated will give Philadelphia Company new common stock worth about $5-$10,000,000). Philadelphia Company has now retired its entire funded debt and has an estimated $6,000,000 in net current assets, plus senior securities of Equitable Gas and Duquesne Light to use in retiring its preferred stocks. (It may be necessary to have a small temporary bank loan which could be liquidated by sale of Pittsburgh Railways' common.) Assuming that there are no Federal tax problems, Philadelphia Company can eventually merge with Duquesne Light, or transfer Duquesne Light common to its own common stockholders. This in turn will facilitate preparation of a dissolution plan for Standard Gas & Electric.

If the Standard Gas prior preference stocks receive par and dividend arrears (but not the call premiums, which seems unlikely) about $76,000,000 in portfolio value would remain for the junior stocks. This might be allocated between the $4 preferred and common stocks on the basis of some formula such as 75-25, 80-20, or 85-15. These would result in values ranging between $75 and $86 for the $4 preferred, and $5-$9 for the common stock. If the claims of the prior preference stocks should be reduced in accord with the discount theory (as above) this would raise the estimated allocation values by about $7 per share for the $4 preferred and $1 for the common stock.

PHILADELPHIA COMPANY sold at 24½ earlier in the year, apparently reflecting optimistic forecasts for earnings of

Shares (000)	*Par Value*	*Div. Arrears*	*Call Premium*	*Possible Claims in Millions* *Par & Arrears, Less Disc. #*	*Par And Arrears*	*Par, Arrears & Call Premium*
368 $7 Prior Pref.	$100	$103	$15	$69	$75	$81
100 $6 Prior Pref.	100	88	10	18	19	20
Total				$87	$94	$101
757 $4 Pfd.	50	69	None	77	90	90
Total All Preferred				$164	$184	$191
2,163 Common Stock						

Discount is estimated at 15 per cent (on dividend arrears) for the prior preference stocks and 25 per cent for the $4 preferred. The dicount theory is based on "present value" of payments against arrears, if spread over a period of years in the continued life of the company.

some $10,000,000 to be available for Duquesne Light common in the year 1951 (compared with about $7,000,000 *pro forma* in 1949). Assuming that a figure of 25 would represent a normal value for Philadelphia stock in 1951, the liquidating value of Standard Gas would be increased by about $15,000,000. On this basis the estimated break-up values for the $4 preferred would be in a range of $90-$102 if the senior preferred stocks receive full arrears, or $96-$110 if those arrears were treated on a discount basis. Estimated break-up values for the common stock would range from $6 to $11, depending on the allocation formula used, and another $1 could be added if the discount theory is applied.

Proposed Increases in Generating Capacity 1950-53

THE Federal Power Commission in its March 17th bulletin on "Electric Utility System Loads and Capacity" listed scheduled capacity additions for the four years 1950-53. In millions of kilowatts these were as indicated in the table below for the principal regions.

These figures include public power projects; Bonneville Power Administration accounts for nearly half of the proposed increase in the Northwest. While the figures for individual utility companies are not all made available separately, the banking firm of Schoellkopf, Hutton & Pomeroy, Inc., has prepared a tabulation of the scheduled additions for certain companies, and the percentages increase in their installed capacity for 1953 as compared with 1949. We have rearranged this list in alphabetical order. Companies which expect to increase their present capacity by 50 per cent or more include the following, some of which have been buying a considerable proportion of their power requirements: Central Hudson Gas & Electric, Northern Indiana Public Service, Middle South Utilities, Central Arizona Light & Power, Gulf States Utilities, Texas Utilities, New York State Electric & Gas, Iowa Electric Light & Power, and Illinois Power.

Scheduled Additions to Capacity In 1950-53

	Thousand Kilowatts	*% Increase*
American G. & E.	500	23%
Carolina Pr. & Lt.	160	45
Central & South West	141	24
Central Arizona Light & Power	60	71
Central Hudson Gas & Electric	85	219
Central Illinois Public Service	120	49
Cincinnati Gas & Electric	80	15
Cleveland Electric Illuminating Co.	120	14
Commonwealth Edison	517	23
Consolidated Edison	300	10
Consumers Power	145	15
Dayton Power & Light	120	36
Detroit Edison	300	21
Duquesne Light	225	33
Florida Power	40	22
Florida Power & Light	45	13
Gulf States Utilities	180	62
Houston Lighting	180	39
Illinois Power	120	51
Indianapolis Power & Light	80	27
Interstate Power	49	43
Iowa Electric Light & Power	65	59

Region	*Capacity December 31, 1949 Installed*	*Net Assured*	*Scheduled Additions to Capacity in 1950-53*	*Ratio of Additions to Installed Capacity*
Northeast	15.9	14.2	2.6	16%
East Central	11.7	10.9	2.5	21
Southeast	8.3	7.7	3.2	38
North Central	7.7	6.8	2.0	26
South Central	3.9	4.0	2.2	56
West Central	2.1	1.8	.9	44
Northwest	4.1	3.9	1.5	36
Southwest	5.1	5.3	1.7	28
U. S. Total	59.6	54.7	16.5	28%

Iowa Power & Light	40	34	Pacific Gas & Electric	797	43
Iowa Public Service	34	26	Public Service of Colorado	80	38
Kansas City Power & Light	145	46	Public Service of Indiana	140	36
Kansas Power & Light	40	23	San Diego Gas & Electric	50	27
Middle South Utilities	473	71	South Carolina Electric & Gas	53	18
Montana Power Company	53	14	Southern California Edison	84	7
New York State Elec. & Gas	145	61	Southern Company	515	30
Niagara Mohawk	300	16	Southwestern Public Service	100	39
Northern Indiana Public Service	124	142	Texas Utilities	395	62
Northern States Power	169	24	Union Electric of Missouri	270	28
Oklahoma Gas & Electric	86	36	Virginia Electric	122	22

DIVIDEND-PAYING ELECTRIC UTILITY STOCKS

		5/3/50 Price About	Indicated Dividend Rate	Approx. Yield	Share Earnings — Cur. Period	Share Earnings — Prev. Period	Share Earnings — % Increase	Price-Earn. Ratio	% of Rev. Avail. For Com. Stock
Revenues $50,000,000 or over									
S	American Gas & Elec.	53	$3.00	5.7%	$4.19f	$4.04	4%	12.6	—
B	Boston Edison	47	2.80	6.0	2.95m	2.78	6	15.9	11%
S	Central & South West	15	.90	6.0	1.45m	1.27	14	10.3	—
S	Cincinnati G. & E.	33	1.80	5.5	2.72d	2.14	27	12.1	14
S	Cleveland Elec. Illum.	46	2.40	5.2	3.06d	2.50	22	15.0	12
S	Commonwealth Edison	32	1.60	5.0	2.04m	1.81	13	15.7	12
S	Consol. Edison of N. Y.	32	1.60	5.0	2.47m	2.04	21	13.0	7
S	Consol. Gas of Balt.	26	1.20	4.6	1.75m	1.48	18	14.9	10
S	Consumers Power	35	2.00	5.7	2.60m	2.20	18	13.5	13
S	Detroit Edison	23	1.20	5.2	1.84m	1.48	24	12.5	10
C	Duke Power	89	4.00	4.5	8.36d	6.48	29	10.6	15
S	General Pub. Util.	17	1.00	5.9	2.13m	2.25	D5	8.0	—
S	Middle South Util.	20	1.10	5.5	1.88f	1.69	11	10.6	—
S	New England El. System	13	.80	6.2	1.30d	.98	32	10.0	—
S	Niagara Mohawk Power	23	1.40	6.1	1.94d	1.59	22	11.9	—
S	North American	21	1.20	5.7	1.40m	—	—	15.0	—
S	Northern States Power	12	.70	5.8	1.03d	.78	32	11.7	15
S	Ohio Edison	34	2.00	5.9	3.06m	2.78	10	11.1	15
S	Pacific G. & E.	34	2.00	5.9	†1.71d	1.86	D8	19.9	8
S	Penn Power & Light	26	1.20	4.6	2.32m	1.93	20	11.2	10
S	Philadelphia Elec.	26	1.20	4.6	2.01m	1.70	18	12.9	13
S	Pub. Serv. E. & G.	25	1.60	6.4	2.25d	2.13	6	11.1	7
S	So. Calif. Edison	35	2.00	5.7	3.19m	2.05	56	11.0	13
S	Southern Co.	13	.80	6.2	1.22m	.89	37	10.7	—
O	Texas Utilities	26	1.28	4.9	2.06f	1.78	16	12.6	—
S	Virginia Elec. Power	21	1.20	5.7	1.64m	1.05	56	12.8	12
S	West Penn Elec.	26	1.80	6.9	3.31PF	3.27PF	1	7.9	—
S	Wisconsin Elec. Pr.	21	1.20	5.7	1.89d	1.69	12	11.1	9
	Averages			5.6%				12.3	
Revenues $25-$50,000,000									
S	Carolina P. & L.	33	$2.00	6.1%	$3.01m	$2.44	23%	11.0	14%
O	Central Ill. P. S.	18	1.20	6.7	1.57m	1.47	7	11.5	15
O	Connecticut L. & P.	58	3.25	5.6	3.72m	3.50	6	15.6	13
S	Dayton P. & L.	33	2.00	6.1	2.61m	2.06	27	12.6	15
S	Florida P. & L.	21	1.20	5.7	2.22m	1.98	12	9.5	13
S	Houston L. & P.	49	2.20	4.5	3.85m	3.01	28	12.7	18
S	Indianapolis P. & L.	31	1.60	5.2	2.78m	3.01	D8	11.2	14
S	Illinois Power	39	2.20	5.6	3.05m	2.93	4	12.8	16
O	Kansas City P. & L.	29	1.60	5.5	1.93f	1.90	2	15.0	13
C	Long Island Lighting	14WD	.80Est.	5.7	1.15m	1.03	12	12.2	—
S	Louisville G. & E.	35	1.80	5.1	3.35d	2.95	14	10.4	13
O	New England G. & E.	14	.90	6.4	1.35m	1.15	17	10.4	—
O	New Orleans Pub. Ser.	36	2.25	6.3	2.95f	2.90	2	12.2	8

(Continued)		5/3/50 Price About	Indicated Dividend Rate	Approx. Yield	Share Earnings Cur. Period	Share Earnings Prev. Period	Share Earnings % Increase	Price-Earn. Ratio	% of Rev. Avail. For Com. Stock
S	N. Y. State E. & G.	27	1.70	6.3	1.98m	1.79	11	13.6	9
O	Northern Ind. P. S.	22	1.40	6.4	2.29m	1.97	16	9.6	12
S	Potomac Elec. Power	16	.90	5.6	1.15d	.96	20	13.9	11
S	Pub. Serv. of Colo.	56	2.80	5.0	4.73d	4.07	16	11.8	14
S	Pub. Serv. of Ind.	29	1.80	6.2	2.46m	2.29	7	11.8	17
O	Puget Sound P. & L.	16	.80	5.0	1.79f	1.51	19	8.9	13
O	Rochester G. & E.	32	2.24	7.0	2.28d	2.42	D6	14.0	8
O	West Penn Power	33	1.80	5.5	2.13d	2.44	D13	15.5	15
	Averages			5.8%				12.3	
Revenues $10-$25,000,000									
O	Atlantic City Elec.	21	$1.20	5.7%	$1.57m	$1.48	6%	13.4	11%
S	Birmingham Elec.	15	—	—	1.57m	2.32	D32	9.6	4
C	California Elec. Pr.	9	.60	6.7	.92d	.71	30	9.8	12
O	California Oregon Power	25	1.60	6.4	2.06m	2.06	—	12.1	17
O	Central Ariz. L. & P.	13	.80	6.2	1.09m	1.08	—	11.9	12
S	Central Hudson G. & E.	10	.52	5.2	.70m	.61	15	14.3	7
O	Central Ill. E. & G.	24	1.30	5.4	2.55d	2.12	20	9.4	11
S	Central Illinois Lt.	36	2.20	6.1	2.97m	2.94	1	12.1	13
O	Central Maine Power	19	1.20	6.3	1.54m	1.44	7	12.3	16
S	Columbus & S. Ohio El.	21	1.40	6.7	2.33d	2.01	16	9.0	14
O	Connecticut Power	38	2.25	5.9	2.30d	1.93	19	16.5	12
S	Delaware P. & L.	22	1.20	5.5	1.67d	1.33	19	13.2	14
S	Florida Power Corp.	18	1.20	6.7	1.65m	1.37	20	10.9	12
S	Gulf States Util.	22	1.20	5.5	1.73m	1.48	17	12.7	19
C	Hartford Elec. Light	50	2.75	5.5	2.86d	2.77	3	17.5	15
S	Idaho Power	36	1.80	5.0	2.94m	2.50	18	12.2	19
O	Interstate Power	9	.60	6.7	.89m	.89	—	10.1	13
O	Iowa Electric L. & P.	14	.90	6.4	1.36d	1.22	11	10.3	9
O	Iowa Pub. Serv.	22	1.20	5.5	2.33m	1.82	28	9.4	15
C	Iowa-Illinois G. & E.	28WD	1.80	6.4	2.69m	2.54	6	10.4	25
C	Iowa Power & Light	22WD	1.40	6.4	1.69d	1.55	10	13.0	15
O	Kansas Gas & Electric	33	2.00	6.1	3.22m	2.29	41	10.2	18
S	Kansas Power & Light	18	1.00	5.6	1.48d	1.45	2	12.2	13
O	Kentucky Utilities	15	.80	5.3	1.48d	1.30	14	10.1	13
S	Minnesota P. & L.	32	2.20	6.9	4.14m	2.80	48	7.7	17
S	Montana Power	23	1.40	6.1	2.62m	—	—	8.8	26
C	Mountain States Power	33	2.50	7.6	3.64f	3.78	D4	9.1	10
O	Oklahoma G. & E.	42	2.50	6.0	3.42m	3.12	10	12.3	14
O	Otter Tail Power	20	1.50	7.5	1.90d	1.64	16	10.5	9
O	Portland Gen. Elec.	27	1.80	6.7	2.46m	1.64	50	11.0	12
O	Pub. Ser. of N. H.	28	1.80	6.4	2.03m	1.69	20	13.8	14
O	San Diego G. & E.	14	.80	5.7	1.13m	.60	88	12.4	11
S	Scranton Elec.	15	1.00	6.7	1.18m	1.08	9	12.7	15
S	So. Carolina E. & G.	10	.60	6.0	1.36d	1.21	12	7.4	11
O	Southwestern Pub. Serv.	33	2.20	6.7	2.55m	2.33	9	12.9	22
C	Tampa Electric	35	2.00	5.7	3.10f	2.14	45	11.3	19
O	United Illum.	45	2.25	5.0	2.69d	2.53	6	16.7	17
C	Utah Power & Light	25	1.60	6.4	2.44m	2.42	1	10.2	16
O	Western Mass. Cos.	33	2.00	6.1	2.64d	2.30	15	12.5	15
O	Wisconsin P. & L.	18	1.12	6.2	1.83m	1.33	38	9.8	12
	Averages			6.1%				11.6	
Revenues $5-$10,000,000									
O	Central Vermont P. S.	11	$ .68	6.2%	$ .83m	$ .66	26%	13.3	7%
C	Community Pub. Ser.	44	2.00	4.5	3.97d	3.98	—	11.1	12
O	El Paso Electric	37	2.00	5.4	3.33f	3.05	9	11.1	22
S	Empire Dist. Elec.	20	1.24	6.2	1.97d**	1.79	10	10.2	13
O	Gulf Public Service	13	.80	6.2	1.39f	1.37	2	9.4	13
O	Iowa Southern Util.	18	1.20	6.7	2.03m	1.73	17	8.9	11
O	Lawrence G. & E.	36	2.85	7.9	2.92d	2.41	21	12.3	10

(Continued)	5/3/50 Price About	Indicated Dividend Rate	Approx. Yield	Share Earnings Cur. Period	Share Earnings Prev. Period	Share Earnings % Increase	Price-Earn. Ratio	% of Rev. Avail. For Com. Stock
O Lynn G. & E.	84	5.00	6.0	4.85d	5.02	D3	17.3	12
O Madison Gas & Elec.	28	1.60	5.7	1.89d	1.64	15	14.8	13
O Northwestern P. S.	10	.80	8.0	1.20d	1.31	D9	8.3	9
C Penn Water & Power	36	2.00	5.6	2.12d	4.80	D56	17.0	13
O Public Ser. of N. Mex.	18	1.00	5.6	1.44m	1.51	D5	12.5	14
O Rockland L. & P.	9	.60	6.7	.63d	.54	17	14.3	13
C St. Joseph Light & Pr.	26WD	1.50	5.8	1.90d	1.54	23	13.7	11
O Southern Ind. G. & E.	23	1.50	6.5	2.14m	2.09	2	10.7	15
O Tide Water Power	8	.60	7.5	1.05m	.80	31	7.6	9
O Western Lt. & Tel.	27	2.00	7.4	2.33d	2.10	11	11.6	11
Averages			6.4%				11.8	
Revenues under $5,000,000								
O Arizona Edison	19	$1.20	6.3%	$2.66s	$1.30	105%	7.5	10%
O Arkansas Missouri P.	15	1.00	6.7	2.02d	1.77	14	7.4	10
O Bangor Hydro Elec.	28	1.60	5.7	2.66d	2.39	11	10.5	15
O Beverley G. & E.	43	2.75	6.4	3.16d	2.10	50	13.6	8
O Black Hills P. & L.	18	1.28	7.1	1.81j	1.51	20	9.9	14
O Calif. Pacific Util.	32	2.40	7.5	3.89f	4.13	6	8.2	7
O Central Louisiana El.	33	1.80	5.5	3.91m	3.44	14	8.4	22
O Central Ohio L. & P.	30	1.80	6.0	2.83m	2.34	21	10.6	11
O Citizens Utilities	14	.70&Stk.	5.0	1.96d	1.58	24	7.1	13
O Colorado Central P.	31	1.80	5.8	2.92d	2.15	36	10.6	13
O Concord Electric	37	2.40	6.5	2.57d	2.17	18	14.4	12
O Derby G. & E.	22	1.40	6.4	1.92d	1.19	61	11.5	10
O Fall River Elec. Lt.	58	3.60	6.2	4.26d	3.55	20	13.6	20
O Fitchburg G. & E.	44	2.75	6.3	2.78d	2.68	4	15.8	12
O Frontier Power	5	.40	8.0	.84d	1.14	D26	6.0	10
O Haverhill Elec.	34	2.55	7.5	2.80d	1.10	155	12.1	11
O Lake Superior Dist. P.	25	1.60	6.4	3.37d	1.00	237	7.4	13
O Lowell Elec. Lt.	44	3.00	6.8	3.35d	2.36	42	13.1	10
C Maine Public Service	13	1.00	7.7	1.49f	1.23	21	8.9	13
O Michigan Gas & Elec.	26	1.60	6.2	2.12d	1.77	20	12.3	10
O Michigan Public Ser.	25	1.40	5.6	2.67d	1.83	46	9.4	11
O Missouri Edison	9	.70	7.8	1.15m	.87	32	7.8	9
C Missouri Public Ser.	39	2.00	5.1	4.40d	3.92	12	8.9	14
O Missouri Utilities	16	1.00	6.3	1.80m	1.55	16	8.9	13
O Newport Electric	27	1.80	6.7	3.03m	2.37	28	8.9	13
O Sierra Pac. Power	24	1.60	6.7	2.13f	2.04	4	11.3	11
O Southern Colo. Pr.	11	.70	6.4	.88m	.86	2	12.5	17
O Southwestern El. Ser.	12	.80	6.7	1.37f	1.33	3	8.8	14
O Tucson Gas, E. L. & P.	22	1.40	6.4	2.23m	2.06	8	9.9	17
O Upper Peninsula Power	14	1.20	8.6	1.60d	1.01	58	8.8	8
Averages			6.5%				10.1	
Averages, five groups			6.1%				11.6	
Canadian Companies*								
C Brazilian Trac. L. & P.	23	$2.00	8.7%	$3.85d	$3.69	4%	6.0	—
C Gatineau Power	19	1.20	6.3	1.43d	1.26	13	13.3	—
C Quebec Power	17	1.00	5.9	1.14d	1.21	D6	14.9	—
C Shawinigan Power	25	1.20	4.8	1.43d	1.58	D9	17.5	—
C Winnipeg Electric	38	1.50	3.9	2.53d	1.81	40	15.0	—

d—December. j—January. f—February. m—March. B—Boston exchange. C—Curb exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. E—Estimated. WD—When delivered. *All twelve months' earnings comparisons have been adjusted to reflect in both periods the present number of shares outstanding. If additional common shares are offered all earnings are adjusted to give effect to the offering. **While these stocks are listed on the Curb, Canadian prices are used. †Does not fully reflect $4,000,000 gas rate increase effective November 28, 1949, or electric rate increase of $8,800,000 recently granted.

What Others Think

Can Federal and Private Power Live Together?

THE thirty-eighth annual meeting of the Chamber of Commerce of the United States held in Washington, D. C., recently was the occasion for the discussion of the Federal *versus* private power question. A panel discussion of the subject "Can Federal and Private Power Live Together?" was directed by Ralph Carr, director of the Chamber of Commerce of the United States and Denver attorney.

The industry side of the question was dealt with by C. E. Oakes, president of the Pennsylvania Power & Light Company, and past president, Edison Electric Institute; Richard K. Lane, president, Public Service Company of Oklahoma; and Kinsey M. Robinson, president, the Washington Water Power Company. Assistant Secretary of the Interior William E. Warne presented the government's views and Ernest L. Wilkinson, Washington attorney, substituted for Senator Watkins (Republican, Utah) in explaining a recently introduced bill by Senator Watkins which would localize control of multipurpose projects.

The March of Public Power

Mr. Oakes led off the discussion with a presentation entitled "Inroads and Effects of Federal Power Programs." The Pennsylvania utility official told the audience that the great fear of the electric industry was the plague of Socialism. He noted that although the American people would never travel the road of Socialism to economic disaster if they knew they were on it, nevertheless we are now being led in that direction by a social scientist, some government officials, and economic planners, most of whom would rise up in horror if they were described as Socialists.

THE speaker then effectively demonstrated his points with the aid of graphs and charts which were shown to the group on a large screen. Charts 1 to 4 graphically portrayed the rapid rise of the electric utility industry during the last thirty years. He pointed out that the installed capacity of the industry has grown since 1919 by an increase of 280 per cent. The great construction program of the industry since VJ-Day was emphasized as indicating the industry's ability to cope with expanding requirements. Oakes characterized the industry as having "a record of achievement in the public interest that few industries can match."

He then pointed out the importance of the acquisition of the electric power industry in any scheme of Socialism. He substantiated this claim with a slide showing a statement made in 1925 by the late Carl D. Thompson, nationally known Socialist. It was:

> . . . The movement for public superpower becomes the most vital phase of the public ownership movement. The control of electric power . . . will obviously carry with it the control of the industries of the nation, the control of transportation, of mining, and agriculture . . . it will also dominate and determine very largely the domestic life of the people . . . electric power is the key to the coming civilization. The struggles, therefore, to secure the public ownership and control of this great strategic resource . . . may yet become the supreme issue . . . of America and the world.

Oakes went on to say that utilities in 1925 thought this plan to be visionary at the time and dismissed it lightly. He

continued that it is not amusing today and that the general idea is being realized rapidly with disastrous results to the investor-owned utilities in the affected areas.

The utility man then showed that the next significant step, the construction of the Hoover dam, was taken in the belief of the then Secretary of the Interior that the "proper office of the United States ends with the construction of dams and incidental structures for primarily Federal purposes only . . . leaving it to municipal or private initiative to develop and market the power under lease of rights to the falling water."

He further stated that today the Hoover dam is practically the sole example of how a major Federal project can be built and operated without wrecking the utilities in the area. Oakes devoted his discussion to the past, present, and future activities of the federally financed projects. Charts with maps of the United States showed the country in 1932 with only very few Federal power projects and the situation as it is today and planned for the future, with many projects dotting the maps. The same comparison was given for federally financed transmission lines and with the same result.

The speaker then noted that the Tennessee Valley Authority got under way in 1933 by taking over Wilson dam and now covers over twice the area of the Tennessee valley. He stated that it continues to expand and already has destroyed thirty-one investor-owned companies in whole or in part. He emphasized that constant pressure is being put on the Congress for more and more authorities, and with a colored map of the United States showed that one bill (HR 894) provided for nine valley authorities to completely cover the nation.

He observed that although these regional authorities are not being legalized *per se*, steps are being taken in that direction with the establishment of the geographical areas of power administration by the Department of the Interior. By these marketing agencies the Department of Interior disposes of hydroelectric power from government dams in the Northwest, the Missouri valley, the Southwest, and the southeastern section of the country. Oakes declared that Interior, in setting up these marketing agencies, will soon blanket the country just as effectively as would the regional authorities.

The utility spokesman then dealt with the important rôle of the rural electrification program in the Federal power scheme. Charts were used to demonstrate the large coverage of the country by REA lines. Oakes pointed out that although the REA claims that the coöperatives are private enterprises, they are completely dependent upon REA for their financing and therefore should be considered an integral part of the growing Federal power monopoly.

He covered the growth of REA lines and then called attention to the new "super co-op" plan of building generating facilities and transmission lines—all this with rural electrification practically an accomplished fact. The speaker maintained that REA is particularly dangerous to the electric companies because its original job is nearly done and, if it gets the money it has asked for from the Congress, it will have a billion dollars to spend. He observed that it will no doubt be expended and probably most of it will go for "unnecessary steam plants and duplicating transmission lines to expand further the Federal power monopoly that is overwhelming us, step by step."

The utility president stated that the socialization of the electric companies, if carried through, would remove from the tax rolls billions of dollars now invested in these properties and would prevent the additional billions to be expended in the future from ever reaching the tax rolls. He offered the following as a guide for Federal policy in dealing with the electric companies:

> The Federal government should encourage and invite investment by the electric companies in the power fea-

tures of water conservation projects. This policy would save billions of dollars for the taxpayers, and put corresponding billions of dollars of investors' capital into tax-paying business.

The government should not expend one dollar in any proprietary enterprise that private capital is able and willing to undertake. This should be an axiom of Federal policy.

The electric utility industry is for the sound economic conservation, development, and utilization of the water resources of the nation in the public interest.

Interior Plea for Public-private Unity

ASSISTANT Secretary of the Interior Warne spoke for the government and developed the subject "The Government's Program and Aims in Power Development." He began his talk by noting the expanding demands for electric energy in this country since the first World War and by declaring the necessity for Federal development to meet this demand. He referred to Federal Power Commission reports of 1948 (the last year for which complete figures are available) which showed that nearly half of the country's major utility systems have to have maximum load curtailments. In total, they amounted to 2,571,000 kilowatts. He added:

> Unfortunately, these figures by no means indicate the true dimensions of the country's power shortage. Our actual deficit of electrical energy is much larger than is generally realized. It is a concealed shortage, because it must be measured in demands that never develop because the power is not there to meet them.

He pointed out that as electric power rates go down the use of electricity goes up. He sighted as examples, figures for 1925 and 1948 showing an increase in the average annual domestic consumption of electricity with a decreasing rate trend.

He stated that according to Federal Power Commission figures the electric power requirements of the country by 1960 should reach 600 billion kilowatt hours. He claimed that this would call for a doubling of power plant capacity within the next decade. He commented that this "doubling the size of the country's power plant" would call for "all of the ingenuity and resourcefulness which private industry and the government can bring to bear" on this formidable task.

He maintained that private industry, faced with the necessity of retiring about 10,000,000 kilowatts of existing capacity during the next ten years, would fall far short of being able to close the gap between power supply and demand. He said that for this reason alone, and others, the job of planned expansion can only be done by industry and government working side by side. Warne went on to say:

> The question is not whether public and private power agencies can live together, but whether public and private agencies, working together at top speed, can expand power output fast enough to sustain our dynamic American economy.

THE Interior official then turned to the consideration of river basin development. He stated that the Federal Power Commission estimates that if sound, multipurpose methods are applied to their development, our rivers can be harnessed to provide nearly 77,000,000 kilowatts of additional hydroelectric capacity. He mentioned particularly the following areas of potential development: the state of Washington, 15,000,000 kilowatts; New England, 3,000,000 kilowatts; Middle Atlantic states, 5,000,000 kilowatts; and Southern Atlantic states, 7,500,000 kilowatts.

He claimed that to produce in steam plants as much electrical energy as can be developed by tapping unused hydroelectric power resources would require on the order of 800,000,000 barrels of oil a year. He noted that it was his concern for conservation of dwindling fuel reserves that led Secretary of the Interior Chapman

to say recently that with our peacetime economy expanding we should install at least 25,000,000 kilowatts of additional hydro capacity within the next fifteen years.

Warne then went on to show the importance of power production in the achievement of other conservation objectives—irrigation, domestic water supply, flood control, navigation, recreation, salinity control, fish and wildlife protection, and pollution abatement. He said that the coördinated use of water impounded in storage reservoirs enables the Bureau of Reclamation to meet all of these urgent needs, with revenues from power development paying a substantial part of the check. He added:

> No private enterprise can finance an integrated, multiple-purpose river basin development. This is the job of the government, and it is inescapable.

THE Interior official then urged that there be more planning and construction rather than less, to make full use of an integrated basis for all purposes of our rivers, and he added that the eastern part of the country needs it as well as the West. He then discussed the charge of Socialism as follows:

> When spokesmen for some of the power companies opposing public power development raise the cry of Socialism, they seek to obscure the real issue. The river resources of the country belong to all of the people. While the Federal government is not proposing a public monopoly of hydro power nor proposing to prevent privately owned utilities appropriately to use these resources, the government cannot permit private companies to skim the revenue-producing cream off our national water resources. Nor can it allow piecemeal, single-purpose river development to foreclose the opportunity to undertake bold, efficient, and truly economic multiple-purpose programs directed toward the whole range of our conservation objectives. We still have magnificent opportunities in this great country and we must not fritter them away by such narrow actions. The public interest clearly demands public developments.

Warne continued to state that "public power is here to stay," and that the Interior Department officials do not believe the development of integrated river basin programs by public agencies spells the doom of private enterprise.

He stated that recent history supports this view. He called attention to the growth of public power in the last thirty years from 4 per cent of total annual output of electrical energy to last year's figure of 20 per cent of the national output. He maintained that although in relative terms private power has lost ground, the industry's markets have actually expanded more than six times over the years.

Warne concluded his remarks by stating that the Federal power policy preference clause requirements were basically sound. And if control over the public power were relinquished to privately owned utilities at the point of generation, many of the purposes of the Federal policy could not be so well served.

Trying to Deal with Federal Power Officials

POWER pooling in the Southwest, with particular emphasis on the negotiations between Oklahoma utilities and the Department of the Interior, was the main topic of discussion of Richard K. Lane, president, Public Service Company of Oklahoma. He also touched on the Rural Electrification Administration's "super co-op" program of circumventing congressional intent by making funds available to the Department of the Interior through REA "super co-op" loans.

Lane stated at the outset of his remarks that his discussion of the posed question of pooling private and public power must be limited to the southwestern area of the United States where he had had experience negotiating with the government on this subject. He stated that it must also be limited to the situation where the flood-control dams in the area could only

"EITHER THE OVERTIME IS ON YOU, HAMMERHEAD, OR YOU HAVE JUST BOUGHT YOURSELF A NICE $12 LADDER!"

deliver the installed capacity 30 per cent of the time because of the "flashy" nature of the streams.

He collaterally referred to but chose not to discuss in detail, except by reference, "the intent of certain organized minorities to destroy private electric companies." He then mentioned the platform of certain Socialists back in 1923, which announced an attack first on private electric companies, and in a convenient order mining, oil, steel, communications and transportation, insurance, medicine, banking, etc. The utility man stated that this group "has continued to boast of its progress and is still today a potent influence in any negotiations for the pooling of power.

Lane then said that although there are people in government who honestly believe that public power and private power companies may exist together as competitors, they are often associated with others with different views. As a result the question is always a "very live one" in pooling talks between the companies and the government.

THE speaker then went back to the time when the Flood Control Act of 1944 was before the Congress and stated that at that time there was nothing in the debates or the committee reports that would indicate the possible building up of a public power monopoly or a possible intent to destroy the private power com-

panies. He noted that it was only a year later that the Department of the Interior went to the Congress with a so-called comprehensive plan and report, in which it asked for a quarter of a billion dollars for steam plants and transmission lines which would duplicate and parallel the functions of the lines of the private companies in the area.

The utility president observed that the first attempt at power pooling in the Southwest came after Interior's plan had been rejected by Congress. The power companies had offered to take this hydroelectric power into their systems, deliver it to the government customers, and pass on to them all the benefits to be derived from the development of such power. Some six or eight forms of contracts have been negotiated between the companies and the Department of the Interior between that time and this, but only one contract has yet been approved and executed.

At this point Lane recited some of the experiences he had recently with the Southwestern Power Administration in an attempt to reach some sort of an agreement with the government. He noted that a contract that had just been agreed to by the companies and the administrator of the power agency has since been rejected by the Secretary of the Interior. These negotiations were entered into at the suggestion of the Congress in 1949 and funds to build transmission lines were allotted at that time, to be used as "some sort of a club to force the companies to make such a contract."

LANE contended that this rejected agreement was one by which public power and private power might exist together and added that the administrator of SWPA seemed to be of the same opinion as a result of his testimony on the subject before a congressional committee. In this testimony the administrator maintained that two people cannot stay in the power business in the same area with absolute competition instead of coöperation and integration such as the new contract gives.

Lane again pointed out that despite this recommendation from the administrator and members of Congress who heard him, the contract was nevertheless officially rejected by the Secretary.

The Southwestern utility head then assailed the "super co-op" scheme whereby REA co-ops were receiving large loans for steam plants and transmission lines and then turning them over to the Interior Department for operation and eventual ownership. He noted that under the plan the "super co-ops" would have to pay to the department a rate higher than that which the department pays to the "super co-ops" for their steam plant electric power and energy.

Lane concluded by referring to statements of Interior Department officials that within ten years a coast-to-coast power grid would be a reality. He claimed that the American people are unaware of these moves and should be given an opportunity to vote on such matters. He stated that he would not fear this question if it could get to the people. The speaker supported this contention with a report of a survey made in his area which showed that the great majority of the farmers receiving REA power know little or nothing about the source of this power, the rate which they are paying for their electricity, or the threat of government in business.

The Northwest Score on Power Pool

"METHODS and Objectives in Power Pooling" was the subject chosen by Kinsey M. Robinson, president of the Washington Water Power Company, for his part in the panel discussion. Mr. Robinson spoke from his experience as the head of one of eleven major electric systems operating in the Northwest power pool.

Before outlining some of his experiences in power pooling, the Northwest utility man stated that coöperation by the Federal, municipal, and private power systems is not only possible but something to be desired. He also called it "good business." He did stress, however, the need for a Federal power policy,

without which "none of us can work in security or peace."

Robinson noted that power pooling had been practiced in the Northwest for more than twenty-five years and had given power advantages to the five states of Oregon, Washington, Montana, Idaho, and Utah. He also pointed out that because of this extended experience, operating difficulties had presented themselves and remedial techniques had already been established. As a result, when Grand Coulee produced power for the first time in 1941, war preparation requirements of the area were pressing and the Grand Coulee and Bonneville systems joined the pool, making it one of the world's greatest electric pools.

The utility executive added that despite the speculation that the end of the war would mean an end of the pooling operation, postwar demands required that the pool be continued. The possibilities of the diverse system extending 1,100 miles down the map challenged the minds of the engineers. These engineers then attempted to calculate total precipitation and runoff in the watersheds which required studies of the zones, weather forecasts, and changes in population. The main problem was one of maximum power demands, none of which occurred at the same time on all systems. The studies resulted in the engineers learning that in a time of emergency "a vast system, which by all rules of the game should fall apart when the speed of generators falls below the danger point, keeps right on running."

THE speaker went on to discuss the Northwest power shortage. He stated that this shortage had unquestionably helped consolidate area-wide participation in the power pool. The household use of electricity in the area was averaging about 5,000 kilowatt hours annually (about two and one-half times above the national average); there was an influx of population amounting to 40 per cent; new industries were coming into the area; and those already established required exceptionally large blocks of power. Manufacturers of generating equipment were booked 100 per cent ahead and companies were completely blocked in further hydro development. The Federal agencies had plans for most of the favorable power sites and assumed responsibility for the region's power supply.

This emergency required the strengthening of pool administration and a Northwest Utilities Conference Committee was formed. This committee brought together, for periodical discussion, representatives of Federal, municipal, and private systems. Immediate attention was given to such matters as generating capacity on the Columbia river and its tributaries, appropriations from Congress, and transmission facilities which would be required in years ahead.

Robinson pointed out that through the pool a 300,000-kilowatt deficiency was met with only minor inconvenience to the public. Voluntary coöperation in the pool made available for area use some 600,000 additional kilowatts of electric energy—a cash value of $300,000,000, not to mention the cost of expensive transmission lines and substations.

The Washington Water Power president maintained that even though generating capacity will be raised over the next few years, the Northwest power pool should not be permitted to fall apart. He stated that it was quite possible that the demand for power will be a perpetual challenge to our supply, and, consequently, the need for coöperation can never be completely laid aside. He stressed the fact that if by this area coöperation it can be proved to Congress and to the voter that Federal power dictatorship is not needed, the threat to the private utilities might well be postponed or eliminated.

THE speaker dealt with the question of Federal encroachment on the industry in the following words:

> Some people think it futile to expect coöperation from the leaders of government agencies, who are determined to wipe out private enterprise in the power field. They tell us that the lion does not make peace with

the lamb it intends to devour. Yet, most of us agree that we fully intend to resist increased political domination. Not only do we expect to give continued good service, remain financially sound, and give more and more recognition to community obligations, but we intend to point out the benefits of our private enterprise system. In addition to sound operation, it is a serious obligation we face, this matter of adequately informing the public regarding our situation. The electric industry faces an equally serious responsibility to persuade other business firms, whether allied or independent, to lend support in this fight against Socialism. Once this has been accomplished, after the public is made to understand that security and prosperity flow from non-Federal enterprise, rather than from planned economy, then and only then can private utilities expect a fair deal.

He then added:

> Some of my experiences in Northwest power operations have been vexing and painful. As a result of these experiences, I wholeheartedly agree that the Federal government should limit its power development to special projects, and encourage private capital rather than dominate the field. Generating plants, whether constructed under the guise of river control, irrigation, or something else, should be economically feasible. Certainly the distribution of power by government agencies should not extend beyond backbone transmission lines.

ROBINSON criticized the preference clause of existing Federal power policy by stating that he could see no reason why several million customers now served by private utilities, all good taxpayers, should be denied a fair and equal share of power generated at government plants. As an example, he stated that it would be just as reasonable to make preference clauses regarding the use of highways, and give cars that may be owned by public agencies, the right of way at intersections, or prior claim to the highways. He urged that these laws in a nation whose very foundation rests upon equality, should be reëxamined and corrected.

THE speaker then stressed the inequities involved in a comparison of the balance sheets of a public power project and a company in private hands. He said that cost of power will be practically the same except for the tax discrimination. He pointed out that nevertheless by methods of accounting government projects will be made to appear less costly. Profits invariably appear more favorable. Subsidies, interest, and tax exemptions—all of which must be paid for by the taxpayer—give Federal power a most unreliable balance sheet and a prestige that is misleading. He claimed that private enterprise, to survive, must have fair treatment. Robinson concluded by appealing for a clarification of the Federal attitude toward private enterprise, especially toward the electric industry. He stated that he believed harmonious coöperation can be attained. He asked that certain minority groups in the government cease this destructive campaign to wipe out private enterprise and that they think more of the general welfare and less of political control.

Rule for Federal Projects?

SENATOR Arthur V. Watkins (Republican, Utah) was unable to attend the meeting. Ernest L. Wilkinson, Washington attorney and fellow Utahan, substituted for the Senator with a discussion of a new plan for river basin development as proposed by the Utah solon in a bill (S 3376) recently introduced in Congress. The measure would place the management and equity ownership of the basin projects in the hands of the water and power users. The Bureau of Reclamation would act only as engineers and builders of the projects.

Some of Watkins' views on the subject can be gleaned from a speech which the Senator had prepared for the occasion, entitled "Needed—A National Power Policy." In it, Watkins states

that the bill was introduced to the end that a national power policy be established along lines such as the following:

> . . . the organization of interstate water and power users' associations for the purpose of entering into contracts for the repayment of the costs of water and power projects on interstate streams and for the ownership, operation, and maintenance of such projects.
>
> Except for the contracting authority of these interstate water and power users' associations, the procedure—planning and construction by the Federal bureaus—remains the same as in present reclamation and flood-control laws. But here the similarity . . . ends. The Federal government would only plan and construct such projects. All operations of the projects, their maintenance, sale of power, and water rights would be undertaken by the new interstate agency.

OTHER features would be: These organizations would be empowered "to hold all power receipts in trust for the over-all basin development; for repayment of the Federal government of principal and interest; and to provide lower power rates to the consuming public.

"The new legislation would in no way change the priority benefits established in Federal laws as to the sale and distribution of power produced by these projects."

Watkins goes on to outline some of the other features of the proposal which include representation of the states by the water users' associations or water conservation districts which would subscribe for the state's interest in the interstate association.

The plan recognizes the "basin account" theory in small projects so that power revenues can be used to carry other feasible portions of the project which can not pay their own way. It also leaves legal title to the projects in the government, with the "equitable title" to be vested in the various interstate associations.

Power features of this new policy proposal include these points:

> The priority use of the power is to be "for the benefit of the basin development itself. Municipalities and other public corporations or agencies, coöperatives, and other nonprofit organizations" would have second preference on the power supply. The great bulk of the supply then would be sold to public and private power systems.
>
> "Power rates would be fixed by the corporation in consultation with the Secretary of the Interior and the Federal Power Commission and would be of sufficient amount to insure repayment of all costs, including interest, operating, and maintenance charges."
>
> Power sales would be restricted to the basin area, except in cases where there were surpluses and outside areas with shortages were in need of this surplus.

Watkins concludes his analysis of the measure by stating that it takes into account our long-established principle of state ownership of the water resources, with the people themselves deciding whether transmission and distribution of power will be by public or private utilities.

"SOMETIMES *it would appear that a considered program is being developed to harass, rather than help, business. Certainly the end result has been a general public conception that industry in this country is selfish and that its objectives are not conducive to the public welfare.*"

—E. W. TINKER,
Executive secretary, American Paper and Pulp Association.

The March of Events

In General

Federal Economy Key to High Production

SUBSTANTIAL tax reduction based on rigorous Federal economy is the key to expanding production and continually expanding employment, according to key representatives of the Chamber of Commerce of the United States.

At the thirty-eighth annual convention of the chamber, recently held in Washington, D. C., 400 delegates, representing 1,400,000 business and industrial executives, said that if industry is to provide 600,000 new jobs that are needed every year, it is "imperative" that Federal tax policies be revised, especially those which eat into potential investment funds.

Without a dissenting vote, the chamber adopted 37 resolutions which, in large effect, brought it into more complete opposition to President Truman's "Fair Deal" program.

Declaring for firm adherence to the policy that Federal taxes are levied for the purpose of obtaining essential government revenues—not for social reforms or objectives—the chamber pointed out that the heavy burden of current business taxes deters production and new investments in facilities.

In addition to calling for more equitable allowances for depreciation and amortization expenses, the chamber declared there should be eventual elimination of the tax upon capital gains. This, it was asserted, will encourage transactions and create new revenues.

With respect to excise taxes, the chamber did not condemn those that are equitably devised and nondiscriminatory as between competing industries, but said they should be at "low rates" and upon articles of wide use, so long as the articles are not "of first necessity."

Of immeditae importance, the chamber said, is removal of the war increase of excises applicable to the "essential services rendered by publicly regulated agencies."

Other high lights of the chamber's recommendations and resolutions on fiscal matters included:

Early withdrawal of government competition with private sources in the lending field; elimination of government controls on consumer credit; and avoidance of excessive margin requirements on security transactions.

In mineral and other natural resources fields, the chamber declared itself as favoring reservation of water rights to the respective states, and registered opposition to any reduction of depletion allowances now made to producers of petroleum, natural gas, and other minerals. The chamber also declared itself opposed to the administration's viewpoints on tidelands resources.

Valley authorities or regional systems of control of natural resources were sharply criticized. Extension of the valley authority idea to the entire country would mean the eventual disregarding of state lines and a new subdividing of the United States on a regional basis. This, the chamber concluded, would bring about the subordination of local and state government to Federal control, "not only of the waters but also, in large degree, of the national economy."

Can Fill All Gas Needs

TRANSCONTINENTAL GAS TRANSMISSION CORPORATION is "willing

and able" to supply natural gas requirements of all applicants along its Texas-to-New England main line, according to its vice president, J. B. Burton.

Testifying at a recent Federal Power Commission hearing in Washington, Mr. Burton said this meant Transcontinental not only could supply additional needs of the Philadelphia Gas Works Company, 100,000,000 cubic feet daily to Northeastern Gas Transmission Corporation for distribution in New England, but also recent requests by Carolina Natural Gas Corporation.

The Transcontinental executive said this gas service could be made possible by addition of one compressor unit in each compressor station along the company's lines. He said the company has contracts with suppliers sufficient to meet the demands.

A few days before Mr. Burton testified, the commission issued its decision on a related application by Transcontinental, permitting it to increase the daily capacity of its Texas-to-New York main line from 340,000,000 to 505,000,000 cubic feet. This decision, however, allocated to present and specified new customers all but 82,745,000 cubic feet of the authorized increase. Transcontinental has contracts with Northeastern for 100,000,000 cubic feet daily.

The Philadelphia Gas Works Company, which was allocated 10,000,000 cubic feet daily, is demanding up to 25,000,000 cubic feet daily within five years. Carolina Natural Gas Corporation wants 30,000,000 cubic feet daily now and 65,000,000 cubic feet daily within five years.

Mr. Burton declared all these demands can be met by Transcontinental by a further expansion program should the commission direct the company to meet them. He conceded that further commission authority would be necessary, but that the company would be able to accomplish it.

Northeastern Gas Transmission Corporation on May 5th marshaled its New England clients to support its bids for control of natural gas distribution in New England which the firm says it could start next winter.

Northeastern put its case before an examiner of the Federal Power Commission at a resumption of hearings which opened last March 7th in Washington.

After two recesses in the hearing, New England Congressmen pressed for speedier proceeding and an early decision. With an early decision, Northeastern's counsel says, it could deliver gas to Springfield, Massachusetts, and to Connecticut by next winter.

Northeastern plans to link with its parent company, Tennessee Gas Transmission Corporation, and also with Transcontinental Gas Pipe Line Corporation.

Union Raps Federal Power Program

PROTESTS against the expansion of government ownership in the electric power industry have been sounded by the (CIO) Utility Workers of America. Meeting in annual convention recently in New York city, the union unanimously adopted a resolution for halting the trend towards government power operations which displace private companies. The resolution warned that domination of the electric power industry by the government "will be the first step down the socialistic highway," to be followed by nationalization of transportation, communications, and other industries. Eventually, it was declared, this would "put an end to our American way of life." The 400 delegates attending the convention particularly objected to the government competing "with light and power companies with whom we hold contracts."

The valley authority idea also drew the union's fire. The resolution recited that —if the present trends in the electric power field are not curbed—"we will soon have authorities, not elected but appointed, who will constitute a supergovernment, with control of practically all the electric power in the nation."

Assistant Secretary of Labor John W. Gibson, administration spokesman at the convention, confined himself to an attack on the Taft-Hartley Act, promising that the Truman administration would not

relax its efforts to "erase this un-American legislation from the statute books."

The main discussion of the meeting seemed centered on negotiations for pensions. The recent pension obtained by a CIO union from Consolidated Edison Company of New York received favorable attention as "better than that obtained from U. S. Steel."

Kerr Forecasts Gas Scarcity

PRESIDENT Truman's veto of the Kerr amendment to the Natural Gas Act to exempt independent producers from Federal Power Commission jurisdiction will "clamp a deep freeze on the business of selling gas in interstate commerce," according to Senator Robert F. Kerr (Democrat, Oklahoma), author of the amendment.

Speaking to 500 delegates at the recent spring meeting of the American Petroleum Institute's production division (eastern district) in Cleveland, Ohio, the Oklahoma solon said:

> Now that the veto has made the threat of Federal control more nearly a reality, not a single new contract to sell gas has been signed. In my opinion, none will be.
>
> It will mean that producers will not be free to sell more gas for present consumers or for any future ones.

Pointing out that the over-all price paid by the consumer for natural gas today is 12 per cent less than it was ten years ago, Senator Kerr asked his audience if the mere threat of FPC regulation has brought some price increases, "what will actual regulation bring?"

Unless the Kerr Bill principles prevail, the result will "not be more gas to the consumer at less cost," he said. "It can only be less gas at higher cost."

In a comparison of performance by regulated and unregulated natural gas producers, Senator Kerr credited the independents with tripling the nation's known gas reserves in the last fifteen years. Regulated firms have not drilled "in the past twenty-five years, nor will they in the future," he declared.

This inactivity, Senator Kerr explained, stems from the Federal Power Commission's basis of regulation which provides "neither incentive nor reward" for finding new reserves.

Crackdown on Gas Rates Denied

ACCORDING to the *Chicago Journal of Commerce,* in a Washington dispatch dated May 8th, a "top Federal Power Commission official" has vigorously denied reports that his agency is planning a crackdown on natural gas rates of so-called independent producers.

Declining to be identified by name, the official termed rumors of a crackdown as "so much oil company propaganda to arouse fears" following President Truman's recent veto of the Kerr Bill exempting independents from commission regulation. Since the veto, the commission has received no applications for gas leases to carriers.

"I can say very definitely," the commission official told the *Journal of Commerce* recently, "that we have no plans for a general investigation of natural gas rates or of the rates of any particular carrier."

He said any such investigation would be a long-term proposition, involving scrutiny of rates, hearings, and in any case would be instituted "only after the commission received complaints that prevailing rates are out of line."

Alabama

Martin Gets Distinguished Service Award

THOMAS W. MARTIN, chairman of the board of the Alabama Power Company, has been named by members of the Southern Association of Science and Industry as one of three men who have made the most "significant contributions to technological progress in the South."

Southern leaders in science, industry,

and agriculture, meeting recently in Charleston, South Carolina, chose Mr. Martin, along with Homer W. Pace, vice president of the South Carolina Electric & Gas Company, and Dr. William G. Pollard, director of the Oak Ridge (Tennessee) Institute of Nuclear Physics, for distinguished service awards which were presented by the association.

Mr. Martin founded the Southern Research Institute in Birmingham in 1945. He contributed $25,000 to start the institute, and as its chairman has brought the total endowment to $2,000,000.

California

Lobby Curbs Tightened

GOVERNOR Earl Warren has signed into law four amendments to the Collier Lobby Control Act of 1949, all of them designed to tighten controls on those who would endeavor to influence the course of legislation. He said the changes the amendments made "will put California in the forefront of those states that have enacted lobby legislation."

This is how the amendments change the present law's requirements that lobbyists register and make public their income and expenditures in influencing legislation:

Only expenditures of more than $25 have to be reported in detail, but a lobbyist must still report a monthly total of all his payments. There had been no floor on itemization in the original law.

A lobbyist must, when he registers, submit a written authorization from his employer.

Representatives of churches need not register.

If a lobbyist splits his fees with anyone else he must report it in a sworn statement.

Contingent fee lobbying — a plan whereby a lobbyist's compensation depends on whether a piece of legislation is passed or defeated—is outlawed.

If a lobbyist hires or has his employer hire a legislator, an attaché of the legislature, or a full-time state employee, he must report all of the details of such employment.

It becomes unlawful to employ a nonregistered lobbyist except on condition that he register immediately.

As now amended, the law spells out in more detail the punitive provisions of the act. Violation continues a misdemeanor with a maximum jail sentence of one year, fine of $5,000 or both, and the measure specifies that making a false statement or omitting any of the details required in the statements is a violation.

A new departure in the amendments is the power granted to each house of the legislature to name a committee which can grant, suspend, or revoke lobbyists' certificates of registration. The committees are empowered to investigate and hold hearings on lobbyists whose actions have been questioned and to report to law enforcement officers violations of the lobby law.

Maryland

Curtailment of Suburban Routes Suggested

CURTAILMENT or abandonment of some Baltimore Transit Company's suburban routes has been suggested as an alternate to a proposed 15-cent fare.

Edward A. Roberts, New York transportation engineer hired by the state to study the company's request for a fare increase, testified before the public service commission that a higher fare "will definitely create a serious community problem" and force millions of present passengers to withdraw their patronage from the company.

As an alternate to the fare boost, Mr. Roberts suggested possible economies,

including curtailment, abandonment, or relinquishment of nonpaying routes in the suburban areas. He said the higher fare will take away millions of short-haul passengers who will not consider their short ride worth 15 cents.

Utility Files Tax Suit

THE Gas & Electric Company, of Baltimore, has filed suit in Federal court to recover $73,496.52 of a $100,710 tax payment made by the firm in 1946. The money was part of a 3 per cent Federal tax on electric energy supplied to domestic and commercial consumers.

Most of the refund claim is based on the company's contention that large ship repair yards in the Baltimore area are industrial consumers, which are exempt from the energy tax, rather than commercial users.

Michigan

Transit Service Cut Recommended

IN a situation similar to that existing in Baltimore, Maryland, out-of-town business consultants and engineers have recommended that service in Detroit be curtailed on some bus and trolley routes, abandoned on others.

A special report to Mayor Cobo and the street railway commission, prepared by Arthur W. Baumgarten, former general manager of the Flint Trolley Coach Company, and now associated with Ebasco Services, Inc., said flatly that the Detroit Street Railway offers 25 per cent more route miles of service—and 25 per cent more actual miles of vehicle operation on those routes—"than statistical averages for the population covered would call for." He said the average transit fare in Detroit is at the rate of 1.145 cents a mile of operation—"or much too low a rate to attain the necessary revenue with a feasible average passenger load."

Mr. Baumgarten's recommendations included: a zone fare system that would result in a higher fare rate per mile without large loss of passenger riding; a rerouting program to reduce the high number of route miles operated, and the elimination of some parallel routes; substitution as soon as practical of trolley coaches on 10 motor coach lines and three streetcar lines; and a complete engineering study of all lines to determine the proper type and capacity of vehicle to produce the best economic results and the best service to the public at the lowest fare.

The report concluded with a warning that the fare raise, which became effective May 15th, "may help increase gross revenues some—but probably not to the extent expected because of the loss in passenger riding resulting from the fare increase."

Minnesota

Would Liquidate Transit Firm

CHARLES GREEN, president of the Twin City Rapid Transit Company, of Minneapolis and St. Paul, recently told stockholders that unless an adequate fare is granted and the two cities stop harassing the company with "unjust financial charges," he will seek to liquidate the firm. His warning was contained in a letter to stockholders in which he informed them the company had lost $197,221 during the first quarter of 1950.

To meet this declining revenue, Mr. Green said the company attempted to reduce service by closing down some of the temporary, losing lines. He pointed out that although this action was in accord with the best thought of transportation experts, "every step in this direction was opposed by both cities, as well as by suburban communities."

Tennessee

Natural Gas Rates Filed

THE Chattanooga Gas Company has filed with the state railroad and public utilities commission a schedule of rates proposed to be charged when the company changes over to natural gas this summer. Rates proposed to be charged on monthly billings for single residences and individual apartments are: first 200 cubic feet $1; next 1,200 cubic feet, 13.5 cents per 100 cubic feet; next 2,600 cubic feet, 12.5 cents per 100 cubic feet; over 4,000 cubic feet, 8 cents per 100 cubic feet.

At the same time, the company received approval of the commission to cancel a regulation, issued July 9, 1947, limiting service for space heating. The company stated that it expected to have an unlimited supply of natural gas.

Wisconsin

Gas Rate Reduction Approved

THE public service commission has accepted a plan of the Wisconsin Gas & Electric Company to reduce natural gas rates to its customers by $210,000 a year. The commission accepted the plan after less than an hour's discussion.

A rate expert of the commission said the reduction will apply to all residential and commercial customers of the company, which has headquarters at Racine and serves southeastern Wisconsin. There will be no reduction for industries and other large users, the commission said.

The cuts for residential and commercial customers will amount to about 10 per cent, according to the commission, which ordered them into effect with meter readings beginning this month.

At the same time, the commission dismissed the city of Waukesha's petition for a rate cut there.

Public Utility Antistrike Law Held Valid

THE constitutionality of the Wisconsin law against strikes by public utility employees was upheld for the second time recently by the state supreme court, which also declared that the law applies to Transport Company workers of Milwaukee.

A circuit court judge on April 11, 1949, perpetually enjoined union representatives of the company's operating and maintenance workers from calling, causing, or encouraging any strike or slowdown of Transport Company passenger service.

This action followed trial of a suit by the Wisconsin Employment Relations Board against the (AFL) Amalgamated Association of Street, Electric Railway, and Motor Coach Employees of America, Division 998, and its officers. The union then carried the challenge of constitutionality to the supreme court.

Questions involved were whether Wisconsin's 1947 law requiring compulsory arbitration of labor disputes to prevent strikes by public utility workers was constitutional and whether it was applicable to this group, which claimed the exemption applying to railroad employees.

Both questions were decided in favor of the relations board by the circuit court, despite the defendants' contention that the law imposed involuntary servitude upon them, denied them rights guaranteed by the National Labor Relations Act, and discriminated against them and other transport workers by excluding railroad employees from its provisions.

The supreme court opinion said in part that the union's arguments "might be convincing if the rights of the public in the outcome of this litigation were overlooked." Justice Grover Broadfoot, who wrote the opinion, said the court had upheld the constitutionality of the law when it was challenged by the (CIO) Coke and Chemical Workers July 12th and would uphold it again now.

Progress of Regulation

State May Prohibit Use of Interstate Wires for Gambling Purposes

THE dissemination of information enabling one to bet on a horse race or some other sporting event is not beyond the power of a state to regulate because the information is transmitted over interstate wires. A state law making it unlawful for utilities knowingly to furnish private wires for use in disseminating such information and making such use a crime is not void as violating the commerce clause of the Federal Constitution. Nor does such a law conflict with regulatory powers of the Federal Communications Commission.

The supreme court of Florida reached these conclusions in upholding a statute enacted by the Florida legislature regulating the lease and use of private wires. The law makes it unlawful for a public utility to furnish a private wire for use in the dissemination of information for gambling or for gambling purposes. It condemns the use of any private wire for the disseminating of gambling information.

The statute requires any public utility which leases a private wire to any customer to furnish the Florida commission duplicate copies of its contract for furnishing such service. The act provides that such contracts constitute *prima facie* evidence that the private wire is used for gambling purposes. The burden of proof is placed upon the person contracting for the private wire to show that it has not been used and is not intended to be used for gambling purposes.

By the terms of the statute it is an exercise of the police power of the state for the protection of the people of the state. The legislature has power to single out, condemn, and punish such acts as it deems injurious to public morals. If furnishing information about horse racing or bookmaking fall in that category, it may resort to such means as are reasonable and within constitutional limitations to suppress it.

The net result of Supreme Court rulings on the question of interference with interstate commerce, said the state court, is that there is no hard and fast rule to determine when a state law lays an undue burden on interstate commerce in violation of the Federal Constitution. Every case must turn on its peculiar facts. These facts must answer the question whether or not Congress has entered the field, and if it has not, whether the state regulation disrupt lines of communication essential to uniformity. The commerce clause was not intended to inhibit the state from promulgating and enforcing police regulations even though such acts may incidentally or indirectly affect interstate commerce.

Reference was made to a case arising in Florida and decided in Sligh *v.* Kirkwood (1915) 237 US 52, 59 L ed 835, where the Supreme Court upheld the power of the state to prescribe and enforce regulations to prevent the production of impure foods within its borders. The court then went on to say that the leased wires were shown to be used to transmit information about horse racing,

prize fights, football games, baseball games, and other sporting events from Baltimore and New Orleans to Miami and other places in Florida. Even though these messages are of interstate character, said the court, it does not follow that when the information conveyed is used to bet on a horse race it becomes an article of interstate commerce as contemplated by the Federal Constitution. In fact, when the information is released for the purpose of wagering, it may then be like the articles in a package when broken and they forfeit their interstate character and are subject to regulation.

At any rate, the court continued, if deleterious fruit is not the subject of interstate commerce, gambling information could not be said to be so. No question of destroying lines of communication where uniformity of operation is required was before the court, and no general burden on interstate commerce was shown to be brought in question.

The Federal Communications Act governs all interstate communications by wire and radio, but, it was pointed out, there is nothing in the act to indicate that it was in any way intended to trench on the police power of the state, and no regulation of the Federal Communications Commission was shown to deal with the subject matter of this controversy. *McInerney et al. v. Ervin, as Attorney General of the State of Florida et al.*

Federal Power Commission Instead of District Court Should Pass on Intercompany Charges

An award by the United States District Court of a judgment for more than one-half million dollars in favor of one electric utility against another was reversed by the United States Court of Appeals. The utilities or their predecessors had for some years operated under joint management in contiguous territory. Their lines were interconnected at several points. They exchanged electric energy under contracts filed with the Federal Power Commission. The utility bringing the action (Montana) asserted that the other company (Northwestern) had paid it less than the filed rate on energy which it purchased and had exacted more than the filed rate for energy which it sold. The complaint charged that such underpayments for purchases and overpayments on sales were fraudulent and unlawful and demanded reparation.

Northwestern contended that the district court did not have jurisdiction over the matter since exclusive jurisdiction over wholesale electric utility rates in interstate commerce is vested in the FPC.

While the district court rejected this contention, the United States Court of Appeals based its decision on this point. The court said:

> The district court, we think, erred in assuming that because the complaint alleged that the rates and charges in issue were unjust and unreasonable it had power to determine just and reasonable rates, and if the filed rates were found to be unreasonable to declare them unlawful and grant reparations. . . . Nowhere does the act give the district court power to determine just and reasonable rates; that power is given to the commission exclusively. . . . the commission may bring an action in the proper court of the United States to enjoin violations of the act and to enforce compliance with the act or any rule, regulation, or order of the commission. . . . The statute does not imply that aggrieved parties may bring such actions.

The court concluded by ruling that in a controversy between electric utilities coming under the Federal Power Act in which it is required that the fraud allegedly practiced by one upon the other be investigated, jurisdiction is in the commission and not in the courts. *Northwestern Pub. Service Co. v. Montana-Dakota Utilities Co. (No. 13,887).*

Space-heating Rate Increase Approved to Meet Sharply Increased Costs

THE Massachusetts Department of Public Utilities ended its investigation of proposed rates of a gas company when the evidence as to the over-all earnings of the company indicated that additional revenue was needed to produce a reasonable return on investment.

The increased rates applied to space-heating services only. Sharply increased costs in this type of service were the reasons assigned for the increase.

The department presented figures showing that since 1941 the cost of gas for heating had increased 95.5 per cent, while hard coal had increased 64.9 per cent; coke, 62.3 per cent; No. 2 oil (central heating), 76.2 per cent; and No. 1 oil (range oil), 86 per cent.

The relative increases indicated to the department that the value of gas as a heating fuel is being adequately recognized but do not support the view that the price of gas for space heating exceeds the value of the service to the customer. This is particularly true, the department concluded, since the concept of value is important principally where there is no competing service and since there is obviously effective and energetic competition between gas for space-heating and other fuels. *Re Boston Consol. Gas Co. (DPU 8655).*

FCC May Not Impair Contract between Licensee and Stockholders of Broadcasting Company

AN accounting action brought by the stockholders of a broadcasting corporation against the Regents of the University System of Georgia was considered by the United States Supreme Court because of the important Federal question involved.

The Regents had entered into a contract with the stockholders of the corporation after the Federal Communications Commission had notified them that a previous arrangement in which the broadcasting corporation operated the station and dictated its policy was not favored and would result in a denial of the Regents' license renewal application. This contract with the stockholders apparently vested control of the station in the Regents since all stock in the corporation was transferred to them. In return for this it provided that substantial monthly payments be made out of station revenues to the stockholders.

When the Federal Communications Commission considered the application for renewal of the license, after this contract had been executed and been in effect for a short period, it found that the required payments would jeopardize the ability of the Regents to operate the station in the public interest and lessen its chances of entering the fields of FM and television. Consequently, the commission refused to renew the license unless and until no further effect was given to the agreement between the Regents and the stockholders. Thereupon the Regents adopted a resolution repudiating the agreement, notified the stockholders and the commission of this repudiation, and received a renewal of its license.

After operating for five years without interruption and without making any payments to stockholders, the Regents were sued by the stockholders for an accounting. The state court entered a judgment in favor of the stockholders for $145,000. The state court of appeals affirmed this decision.

The issue considered by the Supreme Court was whether, in the light of the supremacy clause of the Federal Constitution, a state court has authority to grant recovery under a contract which was the basis for the commission's refusal of a license and was later rescinded to satisfy commission requirements.

The court ruled that the imposition

of the condition on the renewal of the license in no way affected the responsibilities of the licensee (the Regents) to third parties (the stockholders). The commission could insist that the Regents change their situation before granting the renewal but could not act as a bankruptcy court to change that situation for them. The court considered irrelevant the fact that the stockholders were aware that the commission had refused to renew the license unless the contract was repudiated and failed to intervene in the commission hearing. The court said that "it would be a most extraordinary rule that would require the stockholders to intervene upon pain of suffering a binding judgment which the commission could not have lawfully imposed upon them had they been actual parties." *Regents of the University System of Georgia v. Carroll, — US —, 70 S Ct 370.*

District Court May Suspend Confiscatory Rate Order Prior to Appeal and Rehearing

THE supreme court of Idaho held that the district court has jurisdiction to protect a telephone company against confiscation, pending litigation. The supreme court, prior to appeal and pending rehearing, can offer no protection against the imposition of confiscatory telephone rates. It was decided that although the district court could not entertain an appeal from a rate order, due process required it to stay the order if enforcement would result in confiscation and irreparable loss, pending litigation.

The commission's determination of rates must be concluded before judicial review may be invoked. This means that a hearing and either a denial of, or conclusion of, a rehearing must precede the appeal. To protect a company against irreparable confiscation, courts must, if the commission does not, stay enforcement of a confiscatory rate protecting the consumer and the company.

But it was urged that appeal affords an adequate remedy to prevent confiscation. The court rejected this contention, pointing out that losses sustained by the company pending appeal could not be recouped by an increased rate to cover them. They would, therefore, be permanent. Consequently, appeal would be inadequate during the period between the first order fixing inadequate rates and the date of appeal when the supreme court might issue a stay.

The supreme court held that if due process comprehends that courts have jurisdiction to protect against confiscation, pending litigation, and it has no jurisdiction prior to appeal to issue a stay of a rate order, the district court, with general and unlimited jurisdiction in all suits at law and in equity, must have such jurisdiction. Otherwise, there would be no protection against a confiscatory rate order pending the rehearing and appeal. *Joy et al. v. Winstead, 215 P2d 291.*

Customers Not Entitled to Refund Awarded to Natural Gas Distributing Company

THE supreme court of Missouri upheld a lower court judgment dismissing a petition filed by customers of a distributor of natural gas to recover shares in a refund received by the company from a Federal court upon affirmance of a wholesale rate reduction order of the Federal Power Commission. The customers also unsuccessfully sought to recover amounts paid by them after the effective date of the rate reduction order and before a lower rate had been established for the distributing company.

The court further held that the petition raised a question concerning property rights over which the circuit court,

rather than the commission, had jurisdiction.

The customers' theory of unjust enrichment was based upon the fact that the distributing company was paying a fixed rate for gas purchased from a pipeline company and selling it to its customers at a rate fixed and approved by the state commission; that since the cost of gas to the distributing company was considered by the state commission in fixing rates, any reduction in the cost of gas should be passed on to its customers. They claimed that when the rate reduction order was affirmed, the refund should have been distributed to the customers as their interests might appear.

The court rejected the argument that the receipt of the refund permitted the distributing company to have a return in excess of a maximum return upon the investment as allowed by the state commission. It held that while rates must be just and reasonable, they need not yield any particular return. When the established rate of the utility has been followed, the amount so collected becomes the property of the utility, of which it cannot be deprived by either legislative or judicial action without violating the due process provisions of the state and Federal constitutions. The court pointed out that the company never collected, and the customers never paid, more than the legally established rate for gas furnished. Therefore, the court held, there was no unjust enrichment of the company at the expense and loss of customers. *Straube et al. v. Bowling Green Gas Co. 227 SW2d 666.*

Organization of Subsidiary Service Company Approved

THE Securities and Exchange Commission conditionally approved the operation of the recently organized American Natural Gas Service Company as a subsidiary service company of the American Natural Gas Company holding company system. The service company will perform services at cost for associate companies upon request. The scope of the services to be rendered covers engineering, financial and regulatory, accounting, taxes, insurance and pensions, rates, purchasing, corporate services, and general advisory services.

The principal officers of the subsidiary are also the principal officers of the holding company and are, for the most part, officers or directors of the system companies. Their salaries and expenses will be paid in the first instance by the service company and will be charged entirely to the holding company regardless of the time spent by the officers on subsidiary company matters.

The commission pointed out that it had had occasion to construe the provisions of §§ 13(a) and 13(b) of the Holding Company Act in connection with earlier cases. In most cases it had held that no operating company should be charged or have allocated to it any portion of the salary or expenses of any person who was a holding company officer or employee, or whose functions related primarily to the supervision of the holding company system and review of activities of operating companies, their officials, and staffs. It also ruled that each service company should confine itself to functions which the operating subsidiaries cannot perform as efficiently and economically themselves.

The fact that the compensation and expenses of the officers of the service company who also are officers of the holding company are to be paid initially by the service company and charged entirely to the holding company raised a question under the commission's announced principles. However, the commission held that since the holding company would ultimately bear the full cost of such officers and their secretaries, this proposed method of payment was in substantial conformity with the requirements of § 13 and related rules. *Re American Nat. Gas Service Co. et al. (File No. 37-60, Release No. 9625).*

Discriminatory Municipal Plant Charges for Extraterritorial Connections

A MUNICIPAL water plant was held by the Colorado commission to have improperly charged an extraterritorial customer a flat connection fee of $250, in addition to a $30 tap and service connection charge. This fee was charged under an ordinance providing that all users outside the city should pay both fees. The property to be served was adjacent to the transmission main and no main extension was necessary. Only the tap and service connection was required.

The only evidence presented by the city to support its statement that all outside users had paid approximately $250 for a connection with the city water system was contracts between it and three groups of customers outside the city limits for the construction of distribution lines outside the city. These agreements merely provided for arrangements between the outside customers and the city whereby the customers would pay for installing the line and the city would repay to the original contributing customers a pro rata share of an established connection charge to be made to new customers coming on the line after its construction. There was a time limit after which the city would own the line free and clear and could add additional customers upon whatever basis it wished. These time limits have passed.

In the present case there was no construction charge to be borne by the city or the customers. The commission held that the $250 water connection charge was clearly an arbitrary charge in the nature of a penalty not based on need, cost, or any other legal basis. It ruled that the customers in this case were being discriminated against merely because they reside outside the city, on the basis solely that some other customers on some other lines had once paid for the cost of construction of those lines.

The commission's rules provide that municipal utilities may charge 50 per cent of the actual cost of the tap or service connection, or that they may make the same charges to outside users as they make to customers inside their corporate boundaries. If the city is charging its customers inside the city the full actual cost of their tap and service connections, it may do the same as to outside customers. If, however, the tap and service connection charges to city residents are based on some other method of calculation, the tap and service connections to customers outside the city must be based on 50 per cent of the actual cost, or on the basis used for city customers. In any event, the commission held that the flat $250 connection fee was illegal and unauthorized.

The commission said that in spite of the fact that there are service extension contracts between the city and its outside water customers regarding the rights and duties of the city in respect to refunding charges to new customers and providing for an expiration time on the refunding period, the practice of a city when acting as a public utility outside a city limits is governed by the rules of the commission and cannot be based on a contract in conflict with those rules. *Re Loveland Municipal Water Works (Case No. 4962, Decision 34625).*

Protest against Award of Radio License Must Show Service Area Impingement

THE United States Court of Appeals for the District of Columbia dismissed the appeal of a radio station license holder from a decision of the Federal Communications Commission granting without hearing the application of a broadcasting company for a construction permit to erect a new station.

The court pointed out that the station had no right to intervene in the proceeding, since it did not assert any threatened impingement of its service area. As it had

no right to intervene, it was not a party entitled to appeal from the commission decision. *WJR, The Goodwill Station v. Federal Communications Commission (Coastal Plains Broadcasting Co., Intervener) 178 F2d 720.*

Other Important Rulings

THE Colorado commission deviated from its policy of requiring gas utilities to keep their capital structure as close to a fifty-fifty ratio as possible when it authorized a gas company to issue first mortgage bonds resulting in a debt ratio of 61.95 per cent. The issuance was necessary to finance the cost of necessary additions and improvements and the unfavorable capital ratio could be corrected in the future. *Re Greeley Gas Co. (Application No. 10445, Decision No. 34468).*

A proceeding by one railroad to require another line to refrain from unlawfully discriminating against it in the matter of rates and switching service was dismissed by the Texas Court of Civil Appeals for the reason that the matter was one which had been expressly delegated to the commission by the legislature. *Texas & N. O. R. Co. v. Houston Belt & Terminal R. Co. 227 SW2d 610.*

The New York commission revoked the operating certificate of an omnibus line, which had been operating in a city under a local consent, when it was shown that the city had revoked its consent for failure of the operator to comply with conditions imposed by the city. *Re Beach Transit Corp. (Case 13509.)*

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PUBLIC UTILITIES REPORTS

SECURITIES AND EXCHANGE COMMISSION

Re The Columbia Gas System, Incorporated

File No. 70-2328, Release No. 9730
March 13, 1950

DECLARATION *by holding company relating to amendment of certificate of incorporation to limit preëmptive rights of stockholders and to authorize preferred stock; approval granted.*

Security issues, § 123.1 — Limitation on preëmptive rights — Submission of proposal to stockholders.

1. A holding company should be permitted to submit to stockholders a proposal to amend its certificate of incorporation so as to permit the sale for cash of shares of common stock by a public offering or an offering of such shares to or through underwriters or investment bankers who agree to make a public offering without being required to offer such shares first to its own common stockholders, in order to permit flexibility for the handling of emergency problems of common stock financing, notwithstanding the Commission's view that common stockholders should normally have the opportunity to buy whatever additional shares of common stock are offered by their corporation, p. 2.

Security issues, § 96 — Authorization of preferred stock — Submission of proposal to stockholders.

2. A holding company should be permitted to submit to stockholders a proposal to amend the certificate of incorporation to authorize preferred stock, so that the company will be in position to issue such stock if issuance becomes necessary, in view of the fact that preferred stock can be issued only after a further declaration with respect thereto has been filed with the Commission and permitted to become effective in accordance with the standards of § 7(c)(2) of the Holding Company Act, 15 USCA § 79g (c)(2), p. 3.

By the COMMISSION: The Columbia Gas System, Inc., ("Columbia"), a registered holding company, has filed a declaration, and amendments thereto, pursuant to the provisions of §§ 6, 7, and 12 (e) of the Public Utility Holding Company Act of 1935, 15 USCA §§ 79f, 79g, 79l (e), and Rule U–62 promulgated thereunder, with respect to the following proposed transactions:

Columbia's presently authorized capital consists of 30,000,000 shares of common stock without par value, of which 14,798,174 shares are presently outstanding. Columbia proposes to amend its certificate of incorporation so as to reclassify and change 500,000 shares of unissued common stock without par value into 500,000 shares of unissued preferred stock, $50 par value.

[1] Columbia also proposes to limit the present preëmptive rights of its common stockholders by amending its certificate of incorporation so as to permit the sale for cash of shares of common stock by a public offering or an offering of such shares to or through underwriters or investment bankers who shall have agreed to make a public offering of such shares without being required to offer such shares first to its own common stockholders.

The proposed amendments to the certificate of incorporation will require the approval of a majority of the common stockholders of Columbia and will be voted on by such stockholders at the annual meeting to be held on April 27, 1950. In connection therewith Columbia proposes to solicit proxies from its common stockholders and has filed with the Commission a copy of the proxy and proxy statement which it proposes to send to its stockholders.

A common stockholder of Columbia objected to that part of the proposal which provides for an amendment to the certificate of incorporation limiting the present preëmptive rights of the stockholders. He originally requested a hearing with respect to this matter, but thereafter asked that a memorandum containing his views be accepted in lieu of such hearing. We agreed with this request and such a memorandum was submitted.

The arguments advanced against the proposal to alter the preëmptive rights of stockholders may be generally summarized as follows: (1) the proposed change will take away a vested right which the stockholder now has by contract; (2) the act imposes a duty to require as a matter of policy that strict preëmptive rights be accorded stockholders; and (3) the proposal in any event is not a proper one for submission to stockholders, since stockholders cannot be depended on to exercise an intelligent judgment in voting upon the issue even though furnished with adequate information.

He does not argue that the stockholders may not under the present charter provisions give up, or, as is here proposed, alter the preëmptive rights now possessed. The only questions are, therefore, whether the act requires a policy of strict preëmptive rights regardless of the stockholders' desires indicated by a proper vote or whether it permits some lesser privilege and, if the latter, whether the proposal here under consideration is a proper one for submission to stockholders.

We believe that the company's pro-

posal may properly be submitted to stockholders. However, our action in permitting the declaration herein to become effective should not be construed as changing in any way our view that common stockholders should normally have the opportunity to buy whatever additional shares of common stock are offered by their corporations. It is, and has long been, our opinion that when holding companies and public utility companies subject to our jurisdiction sell additional shares of common stock, their own interests, as well as the interests of their common stockholders are, absent special circumstances, best served by allowing common stockholders the right to purchase their proportionate shares of the new issue. It has been our experience that, in so far as the corporation itself is concerned, savings in expenses are made possible by direct sales to its own stockholders, tending to offset, at least in part, the discounts below current market price which are frequently involved in order to make exercise of the rights attractive. Techniques have been developed by Columbia itself,[1] as well as by other corporations,[2] to ensure that at least under favorable market conditions the corporation will have reasonable assurance that a rights offering at a fair price will result in a successful financing. However, there have been and may in the future be situations in which the length of time necessarily required for a preëmptive rights offering to stockholders may involve a serious risk of an unsuccessful offering, at a time when funds are urgently needed. The cost of underwriting a preëmptive rights offering during unsettled market conditions may be excessive, and the risk of failure without an underwriting dangerous to the financial position of the company. A rigid requirement of preëmptive rights in all circumstances leaves no leeway for meeting such problems.

In accordance with the provisions of many other charters which we have approved in recent years, the certificate of incorporation, as amended, would require a preëmptive rights offering of new shares unless the shares are offered publicly, in which event a rights offering to stockholders would be permitted but not required. In our judgment, the flexibility for the handling of emergency problems of common stock financing afforded by the proposed charter amendment is not inappropriate.

[2] With respect to the proposal to amend the certificate of incorporation to authorize preferred stock, it should be clearly understood that while we believe it desirable that the company be in a position to issue such stock if such issuance becomes necessary, and even though the necessary vote of stockholders is obtained, preferred stock can only be issued after a further declaration with respect thereto has been filed with this Commission and permitted to become effective. In determining the issues presented by such a declaration, we would be guided by the standards of § 7 (c) (2) of the act requiring findings that the pre-

[1] Re Columbia Gas System (1948) Holding Company Act Release No. 8563; Re Columbia Gas System (1949) Holding Company Act Release No. 9107.

[2] Re General Pub. Utilities Corp. (1949) Holding Company Act Release No. 8924, 81 PUR NS 222; Re General Pub. Utilities Corp. (1949) Holding Company Act Release No. 9296.

ferred stock is for necessary and urgent corporate purposes, that the issuance of another type of security would impose an unreasonable burden upon the company, and that such issuance met the other applicable requirements of the act.

Said declaration having been filed on February 13, 1950, the last amendment thereto having been filed on March 10, 1950, and notice of said filing having been duly given in the form and manner prescribed by Rule U–23 promulgated pursuant to said act; and

The Commission finding with respect to said declaration that the requirements of the applicable provisions of the act and rules thereunder are satisfied, and deeming it appropriate in the public interest and in the interest of investors and consumers that the said declaration be permitted to become effective:

It is *ordered*, pursuant to Rule U-23 and the applicable provisions of said act, that the said declaration be, and hereby is, permitted to become effective forthwith subject to the terms and conditions prescribed in Rule U-24.

DISTRICT OF COLUMBIA PUBLIC UTILITIES COMMISSION

Re Washington Gas Light Company

Order Nos. 3600, 3604, P.U.C. No. 3495, Formal Case No. 389
November 9, 1949; rehearings denied November 23, December 14, 1949

APPLICATION *by gas company for authority to increase rates; increased rates authorized. Application by appliance dealers for further hearing denied November 23, 1949, and application by Federation of Citizens Associations for reconsideration denied December 14, 1949.*

Valuation, § 270 — Land — Excess over cost.

1. An increase in the value of land over its original cost does not represent investment to be included in a rate base even though it may have been a part of the rate base under an abandoned sliding-scale arrangement, p. 11.

Valuation, § 202 — Unrecovered cost of abandoned property—Gas changeover.

2. The unrecovered cost of property abandoned because of a changeover from mixed to natural gas is properly includible in the rate base when depreciation accruals, prescribed and limited by the Commission, are insufficient to provide for retirement of such property, p. 12.

Valuation, § 168 — Gas conversion cost.

3. The unamortized portion of cost incurred by a gas company in adapting customers' appliances to the use of straight natural gas should be included in the rate base, and a return allowed thereon during the period of amortization, where the amount is so large that it cannot be charged to operating

expenses in the year expended without serious impact upon rates, since the amount required to convert appliances for use of natural gas represents cash working capital used in customer service, p. 13.

Apportionment, § 30 — Promotion expenses — Related gas companies.

4. Allocation of sales promotion expenses between jurisdictions, where related companies maintain a single organization for promotion, is not accurate when based on therms of gas sold, nor is it accurate when based upon the so-called increase-in-meters method, under which the promotional activities occur well in advance of the time of actual installation of the meter; but such cost should be based on an actual time sheet distribution, p. 14.

Apportionment, § 6 — Cost of merchandising department — Incremental theory.

5. The incremental theory of allocating costs to the merchandising and jobbing department of a gas company, allocating to that department only those costs which would not be incurred if the company were not in the merchandising business, should be discarded and replaced by an allocation method which would equitably apportion costs between the gas business and the merchandising business in all cases where such costs relate to both types of activities, p. 16.

Expenses, § 25 — Amortization of conversion cost — Change from mixed to natural gas.

6. A 10-year period for amortization of conversion cost, extraordinary property loss, and accelerated depreciation by a company changing from mixed to natural gas was held to be appropriate for rate making as well as for accounting purposes, p. 19.

Rates, § 384 — Natural gas — Classes of service.

7. Separate schedules for domestic and commercial and industrial gas service should not be perpetuated where there is little difference between these schedules; and where service rendered under the wholesale apartment house schedule does not differ materially from service to large commercial and industrial users, there is no sound reason for retaining a separate schedule for wholesale apartment house business, p. 21.

Rates, § 308 — Reconnection fee — Natural gas company.

8. An increase in the reconnection fee of a natural gas company from $1.50 to $2 was approved, p. 21.

Service, § 188 — Extensions — Customer cost — Gas.

9. Substitution of a charge of one dollar per foot for a schedule of varying rates, depending upon location and size of pipe, for installation of service pipe in excess of the length installed by a gas company without cost to the customer was approved; and approval was granted for the reduction of the length of service pipe to be installed without cost to the customer from 125 feet to 115 feet, with a change of measurement from the property line instead of the curb line, with the result that for all practical purposes the actual length of service to be installed by the company would remain unchanged, p. 21.

Return, § 101 — Natural gas utility.

10. A return of less than 4 per cent for a natural gas company is obviously inadequate to maintain the company in a sound financial position, p. 22.

Rates, § 645 — Scope of proceeding — Gas utility — Interests of appliance dealers.

11. Practices of gas appliance dealers and their efforts to force a gas company to abandon its sale of gas appliances not only bear no relation to the reasonableness of rates for gas service, but are matters not within the jurisdiction of the Commission, p. 24.

APPEARANCES: John O'Dea, People's Counsel, Vernon E. West, General Counsel, and Lloyd B. Harrison, Special Assistant Corporation Counsel, for the Commission; Stoddard M. Stevens and C. Oscar Berry, appearing for Washington Gas Light Company; Charles M. Dinneen and John J. Kirby, General Services Administration, appearing for the United States of America; William A. Roberts and Robert E. McLaughlin, of Roberts and McInnis, appearing for Gas Consumers and Independent Appliance Dealers, and together with Dillard Stokes, for District of Columbia Industrial Union Council, CIO; John H. Connaughton, appearing for the Federation of Citizens' Associations; Mrs. Edward B. Morris, appearing for Fort Davis Citizens' Association.

By the COMMISSION:

Nature of Proceeding

On July 14, 1949, the Washington Gas Light Company (hereinafter referred to as the "Company") filed an application with this Commission for an emergency increase of its rates to produce additional operating revenues of $900,000 in the aggregate on an annual basis, the over-all effect of which would be an increase of approximately 7 per cent.

In support of its application, the Company stated that the additional revenues requested are needed to enable the Company to comply with its obligation "to furnish service and facilities reasonably safe and adequate." The application sets forth that revenues derived from the rates now in effect are not sufficient to pay all of the costs of operation and to provide an adequate return on the property used in supplying gas to customers. It is further stated that the rate of return realized by the Company from its sales to District of Columbia customers has declined from approximately 6 per cent in 1941 to approximately 3.25 per cent in the current year; and that after adjusting for normal temperatures, to offset the adverse effect of the mild weather during the heating season of 1948, 1949, the current return would not exceed 3.68 per cent.

After appropriate notice, formal public hearings were held on July 28, August 30 and 31, September 19, 20, 21, 22, 23, 26, 27, and 29, and October 10 and 11, 1949.

Petitions for leave to intervene were filed by the United States of America, through the General Services Administration, Bureau of Federal Supply (the Government), and by the Gas Consumers and Independent Appliance Dealers (Appliance Dealers). Both petitions were granted.

In addition to people's counsel, and counsel appearing for the Company, the Commission, and the interveners, appearances were noted for the Public Utilities Committee of the Federation of Citizens' Associations, the District of Columbia Industrial Union Council, CIO, the Fort Davis Citizens'

Association, and the Restaurant Beverage Association of Washington.

The Company's testimony on the results of operation was presented by its comptroller, Otis H. Ritenour. Company testimony on rate schedules was presented by its vice president, Howard B. Noyes, and rate engineer, Stephen S. Mason. The Commission witness was V. A. McElfresh, executive accountant and auditor. James K. MacIntosh was the witness for the Government and George Harbaugh and George Webster were witnesses for the Appliance Dealers.

Description of the Company

The Washington Gas Light Company distributes and sells straight natural gas in the District of Columbia. Its wholly owned subsidiaries, the Washington Gas Light Company of Maryland, Inc. (Washington Maryland Company) and the Rosslyn Gas Company (Rosslyn Company) also distribute and sell straight natural gas in near-by areas of Maryland and Virginia. The rates charged for gas service in these latter areas are fixed by the Public Service Commission of Maryland and the State Corporation Commission of Virginia, respectively. The Company purchases natural gas from the Atlantic Seaboard Corporation. This gas is delivered to the Company from a 20-inch pipe line extending from Boldman, Kentucky, to Coatesville, Pennsylvania, at Rockville, Maryland, and Dranesville, Virginia, through transmission pipe lines owned by the Company's wholly owned subsidiaries, Prince George's Gas Corporation and Potomac Gas Company, respectively.[1] The Company in turn sells natural gas to its Maryland and Virginia subsidiaries at wholesale rates filed with the Federal Power Commission. For a considerable period of time prior to 1946, the Company distributed and sold a mixed natural and water gas. The water gas was manufactured at two plants commonly known as East and West Stations. During the fall of 1946, the change-over to straight natural gas was effected in the territory served by the Maryland and Virginia subsidiaries of the Company and, in 1947, the change-over was made in the District of Columbia. Upon completion of the change-over, West Station was abandoned, and East Station was converted to manufacture a high BTU oil gas suitable for mixing with or substitution for natural gas in order to provide standby service and for peak-shaving purposes.

Results of Operations

a. Company Testimony

As previously indicated, the actual conversion from the use of mixed gas to straight natural gas was accomplished just prior to the heating season of 1947, 1948 (comprising the months of October, 1947, to April, 1948, inclusive).

Results of operations within the District of Columbia since the time of conversion have been presented by the Company in this proceeding, for the calendar year 1948, and also for the twelve months' period ended May 31, 1949. The data for each of these periods are set forth below:

[1] There is also involved approximately 13,000 feet of transmission line owned by Rosslyn Gas Company.

	Calendar Year 1948	12 Months Ended 5/31/49
Operating Revenues		
Sales of Gas to Consumers	$12,346,861	$11,954,230
Other Operating Revenues	143,846	162,281
Total Operating Revenues	$12,490,707	$12,116,511
Operating Expenses		
Operation—		
Production	$339,432	$232,477
Gas Purchased for Resale	3,266,162	3,164,425
Distribution	1,495,570	1,494,644
Customer Acctg. and Collecting	852,345	886,222
Sales Promotion	446,153	456,011
Administrative and General	1,229,124	1,279,994
Total Operation	$7,628,786	$7,513,773
Maintenance—		
Production	$140,393	$118,299
Distribution	717,208	863,070
General Property	55,956	60,094
Total Maintenance	$913,557	$1,041,463
Amortization of Natural Gas Conversion	$303,600	$305,100
Depreciation	871,862	884,110
Property Losses Chargeable to Operations	197,664	204,390
Total Amortization and Depreciation	$1,373,126	$1,393,600
General Taxes	$637,828	$655,975
Federal Income Taxes	484,725	355,482
Other Income Taxes	67,700	49,900
Total Taxes	$1,190,253	$1,061,357
Total Operating Expenses	$11,105,722	$11,010,193
Net Operating Revenues	$1,384,985	$1,106,318

In connection with his testimony on the results of operations, the Company witness also testified as to the average investment of the Company during the two periods covered. The record shows that the average investment during the year 1948 was calculated by the Company as $32,594,990; and that the net operating revenues of $1,384,985 provided a return of 4.25 per cent on such average investment. Further, for the period of twelve months ended May 31, 1949, the average investment amounted to $32,779,172. The net operating revenues of $1,106,318 for this period provided a return of 3.38 per cent.

The average investment for the twelve months ended May 31, 1949, was developed as follows:

Gas Plant in Service	$33,622,321
Extraordinary Property Losses (Net)	1,862,946
Natural Gas Conversion Costs	2,777,426
Materials and Supplies	1,002,609
	$39,265,302
Less—Contributions in Aid of Construction	$1,588,895
Advances for Construction	52,357
	$1,641,252
Balance	$37,624,050
Less Depreciation Reserve	4,844,878
Average Investment	$32,779,172

It is pertinent to note that the average investment set forth above includes an allocated portion of the difference between original cost and the 1932 appraised value of land. This item will be discussed further in a succeeding section of these findings.

As the Company sells gas at wholesale to its two distributing subsidiaries, allocations of revenues, expenses, and investment are necessary to determine the portion of income and investment related to the retail sale of gas in the District of Columbia, and such allocations are reflected in the foregoing statements of income, investment, and return. The Company's

witness explained that the principal allocations involved related to gas supply and standby production facilities, and that such items, both expenses and investment, were allocated by the use of a factor developed by relating the therms of gas sold to subsidiary companies to the total gas send-out for the system.

b. Commission Testimony

The Commission's witness testified that the net operating revenue of the Company during the twelve months ended May 31, 1949, amounted to $1,194,396.11, and the weighted rate base for that period amounted to $32,240,198.76. This indicates a return earned of 3.70 per cent. Both income and rate base figures relate only to the sale of gas within the District of Columbia. The methods of allocating investment and expenses applicable to the sale of gas at wholesale to the subsidiary companies were explained in detail by the Commission's witness. There is little difference in the items allocated by the Commission's witness and those allocated by the Company's witness, but the former developed his allocation factor by relating the therms of gas sold at retail by the two distributing subsidiaries of the Company to the total therms of gas sold at retail by all three companies. This method, the Commission's witness explained, assumes an equal line loss and an equal billing lag on all three companies, whereas the method used by the Company's witness lodges all of the billing lag in District operations. The principal allocation factor used by the Commission's witness was 31.60 per cent, which compares with a principal factor of 31.16 per cent used by the Company's witness.

Net operating revenues of $1,194,396.11 were developed by the Commission witness as follows:

Operating Revenues:	
Sales to Customers	$11,954,230.73
Sales to Subsidiary Companies	.....
Other Operating Revenues	168,697.84
Total	$12,122,928.57
Operating Revenue Deductions:	
Operation and Maintenance Expenses:	
Production and Storage:	
East, West, K Street and Chillum Stations	$332,328.08
Natural Gas Purchased for Resale	3,144,198.72
Purchased Gas Expense	16,205.85
Total	$3,492,732.65
Distribution:	
Pumping and Regulating Structures and Equipment in Stations	$54,564.80
Other Distribution	2,302,803.34
Total	$2,357,368.14
Customers' Accounting and Collecting Expenses	886,221.61
Sales Promotion Expenses	342,561.19
Administrative and General Expenses	1,333,027.15
Total Operation and Maintenance Expenses	$8,411,910.74
Amortization of Natural Gas Conversion Costs	$303,600.00
Depreciation and Amortization of Plant:	
Normal Depreciation	$557,598.06
Accelerated Depreciation	326,343.95
Amortization of Extraordinary Property Losses	199,526.53
Total Depreciation and Amortization	$1,083,468.54
Taxes:	
General Taxes	$656,382.61
Federal Income Taxes	411,649.96
D. C. Income Taxes	61,520.61
Total Taxes	$1,129,553.18

Special Provision for Conversion to Natural Gas	.....
Total Operating Revenue Deductions ..	$10,928,532.46
Net Operating Revenues	$1,194,396.11

The weighted rate base of $32,240,198.76, as developed by the Commission witness, embraces the following items which reflect the deduction of applicable book reserves and the allocation of certain items used in furnishing gas to subsidiary companies:

Washington Gas Light Company	
Plant to be abandoned:	
Production, storage, pumping and regulating equipment	$3,000,717.47
Plant to be retained:	
Production, storage, pumping, and regulating equipment, including transportation equipment, in use at production plants	1,340,381.94
Natural gas supply lines in D. C.	494,977.42
Distribution system	16,988,182.69
General plant	2,957,808.50
Total Washington Gas Light Company	$24,782,068.02
Prince George's Gas Corporation	
Storage, pumping and regulating equipment	$1,272,388.42
Natural gas supply lines in Maryland	336,216.33
Distribution mains	.....
Total Prince George's Gas Corporation	$1,608,604.75
Potomac Gas Company	
Natural gas supply line in Virginia from Dranesville to S. Filmore street and Lee boulevard	$310,052.74
Rosslyn Gas Company	
Natural gas supply line in Virginia from S. Filmore street and Lee boulevard to Key Bridge	20,481.05
Total Gas Plant in Service	$26,721,206.56
Advances for Construction	$ *53,322.28
Unrecovered cost of abandoned plant:	
West and East Stations	$ 1,774,665.84
Takoma Station	.....
	$ 1,774,665.84
Unamortized conversion cost ..	$ 2,797,588.91
Materials and Supplies:	
Materials and supplies—general	$ 609,362.14
Production fuels	390,697.59
Total	$32,240,198.76

* Denotes deduction.

c. Interveners' Testimony

The Government witness testified that during the twelve months ended May 31, 1949, net operating revenues of the Company from the sale of gas to District of Columbia consumers amounted to $1,357,247, and that it provided a return of 4.89 per cent on a weighted rate base of $27,768,261. He arrived at these results by adjusting the income and rate base figures previously introduced by the Commission's witness to reflect the amortization of extraordinary property loss and conversion costs on a 15-year basis instead of a 10-year basis, and also to reflect the depreciation of temporary production facilities on a 15-year basis instead of a 10-year basis. This witness also excluded from the rate base developed by the Commission's witness, the unrecovered cost of abandoned plant and the unamortized conversion costs, in the respective amounts of $1,774,666 and $2,797,589. Incident to the change from a 10-year to a 15-year period, Federal and District of Columbia income taxes also were adjusted. However, it was brought out that this adjustment, in so far as it related to accelerated depreciation and extraordinary property losses, was not proper by reason of

the fact that special treatment was given these items by the Internal Revenue Bureau and the District of Columbia Income Tax Bureau, which would not be affected by a change from a 10-year to a 15-year amortization period. Giving effect to this correction, operating revenues would be increased to $1,429,292, which, in turn, would increase the rate of return earned as calculated by the Government witness from 4.89 per cent to 5.15 per cent.

The appliance dealers' witness Harbaugh presented a number of exhibits and some testimony relating to the operations of the Company during the calendar year 1948. Analysis of the exhibits and cross-examination of the witness clearly disclose that, unfortunately, his exhibits contained so many serious errors that the results reflected thereon, and the testimony offered in support thereof, are of no value in the determination of the issues in this proceeding.

d. General

Certain items of investment and expense involved in the determination of the return earned during the test year ended May 31, 1949, have been the subject of conflicting testimony by the various witnesses. In view of the importance of these items, they will be discussed in the immediately succeeding sections of these findings.

Inclusion of Appraised Value of Land in Rate Base

[1] In determining the average investment during the twelve months ended May 31, 1949, the Company's witness included in the item of Gas Plant in Service the difference between the original cost of land and the 1932 appraised value of land. The Commission's witness excluded this difference in his development of the rate base set forth on Exhibit 19. The item in controversy represents the remainder of the difference between the original cost and the 1932 appraised value of land which was included in the original rate base established by Order No. 1458, dated December 13, 1935, 11 PUR NS 469. This order prescribed the sliding-scale arrangement, which remained in effect until June 30, 1947.

As a result of the prescription of a revised Uniform System of Accounts, effective January 1, 1940, it was necessary to reclassify the plant accounts of the Company in accordance therewith. In this reclassification the difference between cost and value of land was segregated in total and deducted in arriving at the original cost of plant, but by reason of the provisions of the sliding-scale arrangement then in effect, the primary accounts were undisturbed. The original difference amounted to $1,055,549.52, and this amount was recorded on the books in Account 107—Gas Plant Adjustments, and in Account 100.1—Gas Plant in Service as a contra item labeled "Adjustment to Derive Original Cost." By reason of retirements and transfers to Miscellaneous Physical Property, the difference between the cost and the appraised value of land remaining in the primary plant accounts and in the contra account has been reduced to $618,391 as of May 31, 1949. It is the latter amount, after weighting changes during the year and after allocation to service outside the District of Columbia that is in controversy.

The only justification offered by the Company's witness for treating this difference between cost and value as an investment was the fact that it was a part of the rate base under the now-abandoned sliding-scale arrangement. Obviously, an increase in the value of land over its original cost does not represent investment, and in arriving at return on investment the inclusion of an item of this character in the rate base merely tends to understate the percentage of return actually earned. The Commission believes that the adjustment made by the Commission's witness was proper for the purposes of this proceeding. Furthermore, there does not now appear to be any sound reason for retaining this item on the Company's books in the primary plant accounts.

Unrecovered Cost of Abandoned Property

[2] By reason of the change-over from mixed to natural gas in the latter part of 1947, certain production facilities of the Company were abandoned and certain facilities converted to the manufacture of a high BTU gas for standby and peak-shaving purposes. The original cost of property abandoned to May 31, 1949, amounted to $3,516,275. After giving effect to the portion of the depreciation reserve considered applicable to this property, to salvage recovered, and to amortization charges made to operations through May 31, 1949, the unrecovered balance at May 31, 1949, amounted to $2,337,407. After weighting and allocating this item, the portion applicable to the District, according to the Commission's witness, was $1,774,665.84. The Company's exhibit reflects an amount of $1,862,946 for the same item. The difference is due partly to the weighting procedure and partly to the allocation factors used by the two witnesses.

The witness for the Government excluded this item from the rate base entirely, giving as his reason the fact that the property is no longer used and useful for public service. He expressed the opinion that the abandonment of this property was a result of a change in the gas art, and that it was one of the hazards of the business provided for in the rate of return of 6 per cent allowed the Company. This witness did not think it could have been provided for in depreciation accruals, although he admitted that, if the abandonment had been foreseen, it should have been so provided for. In his determination of income, however, he provided for the recovery of the cost of this abandoned property as an operating revenue deduction.

The Commission's witness stated that, in his opinion, the extraordinary property loss was occasioned by inadequate depreciation accruals in the past and that, inasmuch as such accruals had been generally prescribed and limited by this Commission, it was only fair and equitable, not only to permit the recovery of this investment, but to allow a return on it until it had been fully recovered. He further testified that, in his opinion, under the investment theory of rate regulation the used and useful concept loses much of its significance and that an equitable balancing of the interest of investors and consumers requires that items of this character be treated as any other unrecovered investment whether in use or not now in use, provided that the

abandoned property had been used in furnishing utility service.

There is no competent testimony in this record advocating the elimination of the amortization of the unrecovered cost of abandoned property from operating revenue deductions.

The sole question for determination by this Commission is whether or not a return should be allowed on this item until it has been fully recovered. Obviously, the abandonment of this property was occasioned entirely by the conversion to natural gas. If it had been known by this Commission well in advance of the fact that this property would, of necessity, be retired in the year 1947, sufficient depreciation should have been allowed to provide for the retirement of such property. Since no such provisions were made, the conclusion is inescapable that the necessity for such an extraordinary abandonment was not, in fact, foreseen.

It is obvious that, under present day concepts of depreciation, any factor causing the retirement of property should, if at all possible, be taken into account in fixing depreciation accrual rates. The record is clear that this was not done with respect to the property under consideration. It follows that the exclusion of this item from the rate base would deprive investors of a return on an investment originally made to furnish utility service which, by reason of inadequate depreciation accruals, was not fully recovered at the time of abandonment. Therefore, the Commission finds and concludes that this item is properly includible in the rate base used in the determination of return earned.

Conversion Costs

[3] The change-over to natural gas made it necessary for the Company to spend approximately $3,000,000 to adapt all customers' appliances to the use of straight natural gas. This involved the changing of burner ports and orifices. All competent witnesses in this proceeding agree that this cost is a proper operating revenue deduction. By reason of the size of the amount, it is being amortized over a 10-year period on the books of the Company. The length of the amortization period will be dealt with separately. The immediate issue is whether or not the unamortized portion of the conversion costs should be included in the rate base and a return allowed thereon. Both the witness for the Company and the Commission witness treated this item as an investment on which a return should be allowed. The Commission's witness stated that, in his opinion, this item represented capital invested to furnish service, and that it was no different from an investment in tangible property used in furnishing gas service. The witness for the Government, while recognizing the necessity for amortization, expressed the opinion that the cost of conversion could in no way be considered as a capital item or a prudent investment. Under cross-examination, however, he stated that working capital, to the extent that it was furnished by investors, is as much entitled to a return as an investment in tangible property. He could not, however, satisfactorily answer the question why working capital, which is merely cash to be used for future operating expenses, should be allowed a return, when money actually spent in

the payment of operating expenses and not fully recovered should not be allowed a return.

From the record in this case it is clear that the amount involved in converting customer appliances was so large that it could not be charged to operating expenses in the year expended without serious impact upon rates charged consumers. It is also clear that it was necessary for the Company to provide the funds in order to make these expenditures. Certainly these funds cannot be secured from investors without cost. The amount required to convert appliances for use of natural gas represents cash working capital used in customer service. Cash so invested is part of the Company's investment in the public service and is entitled to the same rate of return as any investment in property devoted to public use. Under these circumstances, the Commission is of the opinion that it is only reasonable and equitable to include the unamortized portion of these costs in the rate base and to allow a return thereon during the period of amortization.

Allocation of Certain Sales Promotion Expenses to Subsidiary Company

[4] One of the divisions of the sales department of the Company is known as the promotional division. The primary function of this division is to promote the sale of gas in new construction. During the twelve months ended May 31, 1949, the total cost of this division, including direct supervision, amounted to $91,079.20 for the Company and its two distributing subsidiaries, namely, Washington Maryland Company and Rosslyn Company. During the month of June, 1948, all such salaries were charged on the books of the Washington Company and prorated to the two subsidiaries on the basis of therms of gas sold. From July, 1948, through May, 1949, such costs were charged directly on the books of each of the three companies. The Rosslyn Company maintained its own organization, and no question of allocation was involved. A single organization, however, performed this work for both the Washington Company and the Maryland Company, and the charges made on the books of these two companies, while made directly from a time sheet distribution, nevertheless approximated the ratio of therm sales in the District and Maryland to the total therm sales in these two jurisdictions. As a result, the total costs set forth above were apportioned among the three companies as follows:

Washington	$48,859.84
Washington Maryland	14,870.62
Rosslyn	27,348.74
	$91,079.20

The Company's witness contended that the apportionment of these costs among the three companies on the basis of therm sales in the three areas represented a reasonable allocation. The Commission's witness, however, testified that, since the major activity of this division had to do with new construction, and that since new construction in both Maryland and Virginia was substantially greater than in the District, the therm sales basis did not produce a reasonable allocation. As for eleven months of the year, when the direct charges made on the books of the Rosslyn Company covered the salaries of the promotional salesmen working in that territory,

the witness made no adjustment to Rosslyn. However, by reason of the single organization working in both the District and Maryland, he made an adjustment in the amount of $29,362.33, which resulted in a reduction of District expenses and an increase in the expenses of the Washington Maryland Company. This adjustment was arrived at by determining the cost per meter of additional meters installed in the Rosslyn territory during the twelve months ended May 31, 1949, and applying this cost per meter to the increase in meters in the Maryland territory; and by deducting from the resulting amount the charges actually recorded on the Maryland books under the method used by the Company. Using the Commission witness' method of allocating these costs, the total amount involved would be apportioned as follows:

Washington	$19,497.51
Maryland	44,232.95
Virginia	27,348.74
	$91,079.20

The revised District of Columbia figure represents a cost of $9.35 per meter installed in the District during the twelve months ended May 31, 1949, compared with the actual cost of $8.59 in Rosslyn, which was the figure used in arriving at the revised Maryland figure. The witness stated that while he believed this method to be reasonable for the purposes of this proceeding, he would not advocate its adoption for future use in apportioning costs of this character among the three jurisdictions. He did, however, express the opinion that a change should be made in the present procedure and recommended that a direct time sheet allocation, representing the employees' best estimate of the time spent between the two jurisdictions, be adopted.

The allocation of costs between jurisdictions always presents a difficult problem, and, in the case of promotional expenses, it is doubly difficult by reason of the absence of definite yardsticks to measure the results accomplished.

It does not appear that either the therm-sales basis used by the Company's witness or the increase-in-meters method used by the Commission's witness produces results which can be relied upon with any degree of certainty. By reference to Exhibit 23, it appears that during the month of June, 1948, the use of the therm-sales ratio resulted in an inadequate charge to the Rosslyn Company in comparison with the actual costs incurred during the eleven months of the year ended May 31, 1949. To elaborate, on a therm-sales basis, Rosslyn was charged with approximately 10 per cent of the costs of the promotional division for all three companies during the month of June, 1948. The costs of Rosslyn's promotional division on an actual basis for the eleven months ended May 31, 1949, amounted to approximately 32 per cent of the costs of the promotional divisions for all three companies.

The increase-in-meters method may also produce distorted results between the two jurisdictions by reason of the fact that the activities of the promotional division occur well in advance of the time of the actual installation of the meter. In view of the foregoing, the Commission believes that the amount charged the Maryland Company is well below a reasonable

amount, but it is not convinced that the adjustment made by the Commission's witness is sufficiently well supported to justify its unqualified acceptance. In the final conclusion, recognition will be given to the fact that expenses of the promotional division charged to District of Columbia operations are well in excess of a reasonable amount.

As to the future treatment of these costs, the Commission is firmly convinced that the therm-sales basis of allocation should be discarded and replaced by an actual time sheet distribution of costs of this character. This conclusion is adequately supported by the comparison of the two methods cited above with respect to the Rosslyn Company.

Allocation of Costs to Merchandising and Jobbing

[5] The Company, in addition to selling gas, is also engaged in the selling of gas appliances, which is generally referred to as the merchandising and jobbing activity of the Company. Prior to 1931, any losses sustained from this activity were charged to the sales promotion expenses of the gas business. Since 1931, the Company has been required, as a result of the issuance of Commission Order No. 900, PUR1931B 436, to segregate the revenues and the costs of its merchandising activities from expenses related to the gas business. Order No. 1846, effective January 1, 1940, rescinded Order No. 900, but provided that revenues and expenses pertaining to merchandising and jobbing should continue to be treated separate and apart from the gas business of the Company. This was done by requiring that Account 520, a nonoperating income account, be used to record revenues and expenses of merchandising and jobbing.

In the conduct of a regulated activity and an unregulated one by a single corporate entity, it is inevitable that certain costs will be incurred which relate to both activities; and it is, therefore, necessary to resort to some allocation procedure. It is the method of allocation and its effect on income for the period under consideration that is at issue in this proceeding. Furthermore, the issue is not new, as it was raised and disposed of in Formal Case No. 316, which covered the results of operations under the sliding-scale arrangement during the test year ended June 30, 1942.

The Company has consistently used what may be termed the incremental theory of allocation in arriving at costs applicable to the merchandising department. By that it is meant that only those costs which would not be incurred if the Company were not in the merchandising business are charged to that activity. The Commission's witness in this case, as in Formal Case No. 316, 46 PUR NS 1, 45, 50, made substantial adjustments covering retail salesmen's salaries and advertising. In this case, he also made adjustments to charge the merchandising activities for the rental of space used for the displaying of appliances in the general office building and a portion of the salaries of general officers and executives. The adjustments made are tabulated below:

Estimated rental charge for space in general office building, 11th and H streets, N. W., used for the display of appliances	$6,417.53
Estimated retail salesmen salaries and expenses and related supervisory costs	67,439.35
Costs incurred in advertising specifically the sale of gas appliances by the Washington Gas Light Company	12,060.92
Estimated advertising salaries related to specific advertising of appliances	4,586.79
Estimated portion of general officers and executive salaries applicable to merchandising and jobbing	4,682.63

Other adjustments relating to pensions costs, group insurance, and District of Columbia and Federal income taxes were also made, but these items are not in dispute. The basis for making each of the adjustments set forth above was fully explained by the Commission's witness in the presentation of Exhibit No. 20, but it was pointed out that the adjustments as proposed for this proceeding would not necessarily, in all cases, be practicable for routine accounting purposes. It was stated that the basis of allocation upon which the above adjustments were premised was the fact that the Company was engaged in two separate businesses and that all costs common thereto should be allocated on some equitable basis.

Considerable testimony was presented by the witness for the appliance dealers on the question of costs applicable to merchandising and jobbing, but, for reasons heretofore stated, the testimony of this witness is not convincing.

The major point at issue on this matter is the effect of the incremental theory of allocation of certain costs to merchandising and jobbing upon the income of the Company from its gas operations during the period under consideration. There is also involved the question whether or not the use of the incremental theory is in compliance with the provisions of Order No. 1846 and the Uniform System of Accounts prescribed by that order. It follows that if the incremental theory is in conflict with the provisions of Order No. 1846 and the System of Accounts, the income from gas operations presented by the Company is understated.

Paragraph (d) of § 1 of Order No. 1846 provides:

"That Operating Expense Account No. 789: 'Merchandising, Jobbing, and Contract Work' shall not be used but that Income Account No. 520: 'Income from Merchandising, Jobbing, and Contract Work' shall be used in lieu of said Account No. 789. The list of *'Items'* (including lines numbered 1 through 17) set out under said Account No. 789 shall, however, be applicable in governing the charges and credits to be made to Account No. 520."

The text of Account 520—Income from Merchandising, Jobbing, and Contract Work reads as follows:

"A. This account shall include all revenues derived from and expenses incurred in the sale of gas merchandise and jobbing or contract work, including any profit or commission accruing to the utility on jobbing work performed by it as agent under agency contracts, whereunder it undertakes to do jobbing work for another for a stipulated profit or commission.

"B. The account shall be subdivided as follows:

"520.1 Revenues from Merchandising, Jobbing, and Contract Work."

"520.2 Costs and Expenses of Mer-

chandising, Jobbing, and Contract Work.

"Account 520.2 shall further be subdivided so as to show the major items of costs and expenses."

The list of items referred to in the above-quoted Paragraph (d) of § 1 of Order No. 1846 are as follows:

1. Advertising in connection with the sale of merchandise.
2. Cost of merchandise sold, and of materials used for jobbing work, including transportation, storage, handling.
3. Depreciation.
4. Direct taxes.
5. Discounts and allowances made in settlement of bills for merchandise and jobbing work.
6. General administrative expenses.
7. Insurance.
8. Inventory adjustments, merchandise.
9. Light, heat, and power.
10. Losses from uncollectible accounts.
11. Miscellaneous.
12. Pay and expenses of employees engaged in clerical work, and bookkeeping in connection with merchandising.
13. Pay and expenses of all employees engaged in selling, delivery, installation, etc., as well as supervision of such employees.
14. Reconditioning repossessed appliances.
15. Rent of general quarters.
16. Revenue from the sale of merchandise and from jobbing and contract work.
17. Stores expense on merchandise stocks.

From the foregoing, it does not appear that the System of Accounts contemplates that the Merchandising Department should be charged only with costs which would not be incurred if the Company were not in the appliance business. On the contrary, the items of costs listed above specifically mention advertising in connection with the sale of merchandising; pay and expenses of all employees of selling, delivery, installation, etc., as well as supervision of such employees; rental of general quarters; and general administrative expenses. Under the incremental theory, the Company makes no charges to the appliance department for general officers' salaries, high level supervision of salesmen, or rental of general quarters for display of appliances; and charges to that department only 20 per cent of the cost of advertising the sale of merchandise. These were the principal items covered by adjustments made by the Commission's witness and such adjustments, in principle, appear to be in accord with the System of Accounts. Generally, the adjustments appear to be reasonable, but it was pointed out that the procedure used in their development would not, in all cases, be recommended for future use without further study and consideration. For the purposes of this proceeding, however, the Commission concludes that the adjustments in question can be accepted as reasonable and that income for the period under consideration should be adjusted accordingly.

From the record before it, the Commission believes that the incremental theory should be discarded and replaced by an allocation method which would equitably apportion costs between the gas business and the mer-

chandising business in all cases where such costs relate to both types of activities. The Commission will not at this time prescribe a hard and fast rule for such an allocation but will permit the Company to study the entire problem and submit a revised allocation procedure within a reasonable period of time.

Amortization Period for Conversion Cost, Extraordinary Property Loss, and Accelerated Depreciation

[6] The change-over from mixed to natural gas resulted in a substantial extraordinary property loss and a substantial cost for converting customer appliances. Also, by reason of the change-over, it was necessary to convert the manufacturing facilities at East Station to permit the production of high BTU gas suitable to substitute for natural gas. The accounting treatment of the extraordinary property losses and provision for accelerated depreciation on East Station is fully covered by Order No. 3261. That order in substance provided that the extraordinary property losses be disposed of by monthly charges to Account 506, Property Losses Chargeable to Operations, over a 10-year period beginning January 1, 1948. It also provided that the unrecovered original cost of East Station, plus any costs subsequently incurred incident to the conversion to the manufacture of high BTU gas, be depreciated on the basis of a remaining life of ten years from January 1, 1948, until such time as this property is removed from service. At that time, any unrecovered original cost then remaining, after adjustment for salvage, should be treated as an extraordinary property loss and disposed of in the same manner as outlined above; that is, by charges to operations over the remainder of the 10-year period beginning January 1, 1948. Order No. 3261 left the treatment of these items for rate-making purposes open for further consideration. The Commission also approved a 10-year amortization period of conversion costs for accounting purposes.

The Commission has already concluded that the unrecovered costs of abandoned property, and the unamortized portion of conversion costs, are properly includible in the rate base, and that the Company should be allowed a return thereon in the determination of rates. The remaining question to be disposed of with respect to these items is whether or not the 10-year amortization period should be approved for rate-making purposes as well as for accounting purposes.

The witness for the Government, as heretofore explained, proposed a 15-year amortization period in lieu of ten years. In justification of this proposal, he cited the 15-year period of the natural gas contract between the Company and its supplier, the Atlantic Seaboard Corporation. It was developed in cross-examination that this contract is subject to renewal, and that the Company has no intention of discontinuing the purchase and sale of straight natural gas. Both the Company witness and the Commission witness utilized the 10-year amortization period in the determination of income for the test year ended May 31, 1949. The Commission's witness expressed the opinion that, since the 10-year amortization period had been ap-

proved for accounting purposes, not only by this Commission but by the Federal Power Commission and the State Corporation Commission of Virginia, such approval should have taken into account the effect upon rate making.

The Commission has given considerable time and consideration to this particular point, by reason of the fact that an increase in the amortization period from ten to fifteen years would reduce income requirements at this time. The costs under discussion relate to past periods; the conversion costs to the year 1947, and the extraordinary property losses and provision for accelerated depreciation to many years prior to the change-over to natural gas. It is only the size of the amounts involved that justifies amortization at all.

Therefore, the Commission finds that a 10-year period for the amortization of these costs is appropriate for rate-making as well as for accounting purposes.

Effect of Proposed Increases

The Company's witness estimated that the requested increase of $900,000 would, on the basis of experience during the twelve months ended May 31, 1949, after adjustment for wage increases, depreciation, and normal temperature conditions, provide a return of 5.34 per cent on the average investment as calculated by him. This compares with a return of 3.79 per cent, after giving effect to the same adjustments, but before giving effect to the requested increase in rates.

The Commission's witness testified that, after adjustment for the same three factors (but with a higher adjustment for average temperatures than that made by the Company witness), the return earned by the Company during the twelve months ended May 31, 1949, would amount to 4.169 per cent on a weighted rate base applicable to District of Columbia operations. On the basis of his calculations, the requested increase of $900,000 would produce a return of approximately 5.75 per cent. He pointed out the following significant facts:

(1) An increase in the volume of business will undoubtedly tend to increase revenue during the succeeding year if normal temperatures prevail.

(2) The rate base will, in all probability, show a substantial decline, due primarily to accelerated depreciation on standby plant and the amortization of the unrecovered costs of abandoned facilities and of the costs of change-over from mixed to natural gas, thereby reducing the revenue requirements of the Company.

By reason of the two factors set forth above, the Commission's witness recommended that consideration be given to either a smaller increase than that requested by the Company, or to conditioning the requested increase to provide for the recovery of excess return in the event a favorable year is experienced subsequent to any increase in rates. The witness explained that the latter recommendation was premised on the Modified Sliding Scale Plan adopted by this Commission for use in connection with the regulation of rates charged for electric service by the Potomac Electric Power Company.

Proposed Rate Schedules

The Company introduced rate schedules designed to produce additional revenue in the amount of the

requested increase of $900,000, and, at the request of the Commission, rate schedules which would produce additional revenue in the amount of $600,000 annually. The record also contains the data necessary to adjust these rate schedules to provide annual revenues in varying amounts between the amount of increase requested by the Company and $600,000.

[7] At the present time, the Company has separate rate schedules for domestic, commercial and industrial, and wholesale apartment house customers. It also has a seasonal off-peak rate. In all of the new schedules presented in this proceeding, the seasonal off-peak rate has been retained, but the other three schedules have been combined into a single rate schedule. The record shows that there is little difference between the existing domestic and commercial and industrial schedules, and that there is no sound reason for the perpetuation of separate schedules for the two types of business. The record also shows that service rendered under the wholesale apartment house schedule does not differ materially from service to large commercial and industrial users, and that there is no sound reason for retaining a separate schedule for the wholesale apartment house business.

[8, 9] In connection with the presentation of the proposed rate schedules, certain minor revisions in the rules and regulations governing the furnishing of gas service also were proposed. One of these changes would increase the reconnection fee from $1.50 to $2. Another change involves the substitution of a charge of one dollar per foot for a schedule of varying rates, depending upon location and size of pipe, for the installation of service pipe in excess of the length installed by the Company without cost to the customer. The length of service pipe to be installed without cost to the customer has been reduced from 125 feet to 115 feet, but the new measurement is from the property line instead of the curb line, so that for all practical purposes the actual length of service to be installed by the Company remains unchanged. These revisions, as well as the other minor revisions in regulations, appear to be reasonable, and, in so far as the changes involving costs are concerned, more in line with present-day costs to the Company.

The record also contains considerable evidence as to the effect of the proposed rate schedules on various classes of customers and upon individual users in various consumption brackets. In view of the finding and conclusion contained herein, it is unnecessary to discuss the effect of the application of all of the rate schedules found in the record. It is pertinent to call attention at this point to the fact that all of the calculations in the record as to the effect of the proposed rate schedules on annual revenue are based upon sales of gas during the calendar year 1948.

Conclusion

At the time this Commission authorized the conversion from mixed gas to straight natural gas, it was the expressed hope of the Company that the change to straight natural gas would result in economies that would absorb the increasing costs applicable to the gas business, cover the amortization of cost incident to the changeover, and eliminate or greatly reduce the necessity for the granting of in-

creases in rates for gas services. The Commission shared this hope. From the record in this case, it is now apparent that this hope cannot be realized.

[10] In line with previous findings, the Commission finds that the rate base for the test year ended May 31, 1949, amounts to $32,240,198.76. On the basis of income of $1,194,396.11, developed by the Commission's witness, which, with one exception, was found to be proper, a return of 3.70 per cent is indicated. Using the income of $1,106,318 developed by the Company's witness, which for reasons heretofore set forth is understated, a return of 3.43 per cent is indicated. In either case, a return of less than 4 per cent is obviously inadequate to maintain the Company in a sound financial position.

While the cost of natural gas, including amortization of the extraordinary property loss and the cost of conversion, is now 3 per cent less than the cost of the manufactured gas supply of 1939, other costs, principally labor, have risen to such an extent that net operating income has declined sharply and to such a level that an increase in rates appears necessary to maintain the Company in a sound financial position. While the Commission is convinced that an increase in rates is necessary, it nevertheless is desirous of confining such increase to a minimum. The Commission is well aware that one of the important factors contributing to the low level of earnings experienced during the test year ended May 31, 1949, was the mild temperatures prevailing during the heating season for such test year. While adjustments were made by both the Company and the Commission witnesses to compensate for this condition, such adjustments were not offered and cannot be accepted as conclusive proof. Normal temperatures during the past heating season might well have produced substantially different results.

The record shows that, after adjustment for normal temperature conditions, changes in labor rates and depreciation accruals, the requested increase of $900,000, if it had been in effect during the test year ended May 31, 1949, would have increased the return earned to 5.34 per cent, according to the Company's witness, and to 5.75 per cent, according to the Commission's witness. Neither of these calculations gives effect to the growth in the volume of business resulting from additional customers, nor to the probable reduction in revenue requirements by reason of an almost certain decline in the rate base due to the amortization of the extraordinary property loss and the cost of converting to natural gas. Furthermore, the rate schedules proposed by the Company to produce the requested increase of $900,000 were applied to therm sales actually made during the calendar year 1948. The application of these proposed rate schedules to therm sales during the test year ended May 31, 1949, adjusted for normal temperature conditions, would undoubtedly produce in excess of $900,000. A continued increase in customers can reasonably be expected, and it is obvious that with normal temperature conditions, the proposed rate schedules may well produce substantially more than $900,000 in the succeeding year.

Furthermore, the revision of ac-

counting procedures heretofore found necessary with respect to the allocation of certain promotional costs to the Maryland Company and the replacement of the incremental theory of allocating costs to the merchandising and jobbing of the Company with a more equitable procedure will probably tend to improve the earnings of the Company from the sale of gas in the District of Columbia.

In view of all the variable factors involved as to the future, which are impossible to measure precisely, the Commission is convinced that rate schedules calculated to produce $750,000, when applied to the sales of gas in the District of Columbia during the calendar year 1948, will provide the Company with a reasonable return in the immediate future and, at the same time, will confine the burden on consumers to the minimum necessary under the circumstances.

The rate schedules which will be approved by the Commission will provide the following increases by classes of customers:

Domestic (Nonheating)	$386,422	8.01%
Space Heating	257,795	5.07
Commercial and Industrial (Nonheating)	87,393	5.57
Seasonal Off-peak	611	7.71
Wholesale Apartments	5,701	1.78
Government	11,598	2.86
	$749,520	6.14%

The monthly increase in individual domestic bills for various consumption brackets will be as follows:

5 Therms	$0.22
10 Therms	0.23
25 Therms	0.24
50 Therms	0.26
100 Therms	0.55
200 Therms	1.12
400 Therms	2.26
600 Therms	3.40

The Commission finds and concludes that the rates specified in the order attached to this opinion are just, reasonable, and nondiscriminatory and will permit the Company to earn a fair return upon its investment devoted to public service and maintain its financial integrity. Accordingly, an appropriate order will be issued.

Order Denying Further Hearing

Under date of November 16, 1949, the attorneys for Gas Consumers and Independent Appliance Dealers (Appliance Dealers) filed with this Commission an application for reconsideration of the findings and opinion and Order No. 3600 and requested the Commission to either assign the matter for further hearing or for further oral argument or decide without such further proceeding that an increase in gas rates is not justified.

In paragraph 1 of the application, it was stated that the Commission committed obvious error in considering the testimony of only one witness produced by the Gas Consumers and Independent Appliance Dealers and concluding that his testimony was without value. The Appliance Dealers produced only one witness on the subject of the Washington Gas Light Company's (Company) accounts.

In view of the assertion in paragraph 1 of the application for reconsideration, the Commission has reviewed the testimony of witness Harbaugh who testified for the Appliance Dealers. A review of the testimony and exhibits of this witness convinces the Commission that its statement in its findings and opinion that the exhibits of this witness contain so many serious errors that neither the exhibits

nor the testimony in support thereof are of any value in the determination of issues in the proceeding, was the most favorable characterization that could be made of such exhibits and testimony. The Commission therefore rejects the representations in the application as being without support.

[11] Paragraph 2 of the application states that Mr. George C. Webster, an experienced gas appliance dealer and gas consumer, offered very valuable evidence which appears to have received no consideration by the Commission in arriving at its conclusions. Since the applicant has made specific reference to a witness and his testimony, the Commission has reviewed the testimony and will state briefly its character and the subject matter of it. The witness referred to made a detailed disclosure of the practices of gas appliance dealers and the practices of his own firm in particular. He testified as to the volume of his own business, the method of selling and installing gas appliances and the type of tools and transportation equipment necessary in his business, and the kind of advertising his firm did. The witness also testified that the Company is engaged in the sale of gas appliances in competition with gas appliance dealers, and that through years of good service to consumers the Company has built up a consumer acceptance that is difficult for other dealers to overcome.

The witness testified that the pipefitters feel very strongly about a rate increase because of its serious effect upon their business of fitting pipe to sell gas appliances. They feel that gas is an excellent fuel and an increase in rates would make other fuels more competitive.

The witness Webster also detailed his experience over a period of three years in consulting with the Company concerning its advertising and its promotion of the sale of gas. He said the Appliance Dealers had been trying for fifteen years to persuade the Company to abandon its sale of gas appliances. Witness Webster offered no testimony relating to the Company's investment or its operating and expense accounts.

If the proceeding before the Commission had involved an investigation of the practice of Appliance Dealers, the testimony of Mr. Webster would have been very helpful. But the practices of gas appliance dealers and their efforts to force the Gas Company to abandon its sale of gas appliances not only bear no relation to the reasonableness of rates for gas service, but are matters not within the jurisdiction of this Commission.

The Appliance Dealers produced one other witness who discussed the practice of the Company in establishing credit for customers of the Appliance Dealers. Where credit is established, the customer is permitted to pay the balance in his account monthly over a 3-year period at the rate of 6 per cent on the unpaid balance.

The witnesses for the Appliance Dealers were fully heard and their testimony has been carefully considered.

The Commission has reviewed its findings and opinion and order No. 3600 in the light of these and other representations of error contained in the application for reconsideration.

It finds and concludes that the representations of error are without merit and that Order No. 3600 should be affirmed.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

National Forge & Ordnance Company

v.

Pennsylvania Electric Company

Complaint Docket No. 14495
February 6, 1950

PETITION *by company complaining of new electric rates for subpoena to produce books and records; denied.*

Witnesses, § 5 — Production of records — Subpoena duces tecum.

1. A subpoena duces tecum may not be used to compel the production of material requiring special preparation, although it may be used to compel production of specific and pertinent records, books, or papers, p. 27.

Witnesses, § 5 — Subpoena duces tecum — Production of books, papers, and records.

2. Specific data in regard to the income and expenses of an electric utility, which data are not part of the regular records of the company and would require special preparation, are not encompassed within the ordinary meaning of "books, papers, and records" which are properly the subject of a subpoena duces tecum, p. 27.

(CONLY, Commissioner, dissents.)

By the COMMISSION: Pennsylvania Electric Company, on October 1, 1948, filed tariffs to become effective December 1, 1948. National Forge and Ordnance Company, on November 16, 1948, filed its complaint against said tariff. Hearings were held on said complaint November 14 and 15, 1949, and January 17 and 18, 1950.

Subsequent to the initial hearings, complainant, National Forge and Ordnance Company, on January 6, 1950, filed its petition for subpoena duces tecum. The petition averred, inter alia, that respondent at said hearings presented only the testimony of Raymond Gawryla, its director of rates and property valuations; that respondent's counsel had stated that Gawryla was respondent's main witness; that complainant had deferred cross-examination pending examination of certain books, papers, and records; that at the conclusion of said hearings counsel for respondent offered to produce without necessity of subpoenas "any books, papers, and records which counsel for complainant might need in connection

with the cross-examination of the witness Gawryla"; that thereafter by letter dated November 23, 1949, complainant advised respondent of the books, papers, and records desired; that by letter dated December 28, 1949, respondent, with minor exceptions, refused to furnish the books, papers, and records requested; and, that the information desired was material and relevant and necessary to permit the complainant to properly cross-examine respondent's witness, Gawryla.

The "books, papers, and records" requested are:

1. Income and Expense Statements, in the form of respondent's Exhibit 9 by years for the years 1945, 1946, and 1947.

2. Balance Sheets at December 31, 1945, 1946, 1947, 1948, and at the end of the latest month in 1949 for which available.

3. Statements showing analyses of earned surplus and of capital surplus for the years 1945, 1946, 1947, 1948, and for the longest period in 1949 for which available.

4. Analyses of construction in progress as of August 31, 1948, and as of December 31, 1948, showing the amounts applicable to each plant for plant and plant equipment (and indicating whether it is a new facility or a replacement) and the amounts applicable to transmission lines, substations, distribution lines, and transforming equipment, again distinguishing between new facilities and replacements.

5. A statement showing, by plants, the cost of generating power per kilowatt hour for the months of August, 1948, and August, 1949.

6. With respect to the fuel adjustment, a statement showing the following information for the year 1947 and, by months, for the period beginning January 1, 1948, and ending with the latest month in the year 1949 for which such statements are available.

(a) Total fuel costs, in dollars, for each period.

(b) Net kilowatt hours output for each generating station for each period.

(c) Total kilowatt hours sold in each period.

(d) Total kilowatt hours sold after the new tariffs were put into effect to which the fuel adjustment charge was applied.

(e) Number of BTU's used per net kilowatt hour generated at each generating station.

(f) Total kilowatt hours purchased from each source of purchased power, the price paid for such power and the fuel adjustment charges, if any, that have been included in such purchase prices. (In this connection a copy of the fuel adjustment clauses, if any, included in tariffs or contracts for the purchase of outside power should be furnished).

7. A statement showing sales of securities (bonds and stocks) during the period begining January 1, 1945, and ending October 31, 1949, indicating the amounts sold, the net proceeds to the company per unit and whether the sales were made to the public or to an affiliated company.

8. In instances where financial statements for later years included the operations and financial data of acquired companies, separate statements of such companies for years and the period prior to acquisition should be included so that complainant will have comparable financial information beginning

with the year 1945 and ending with the latest date in 1949 for which statements are available.

Respondent, on January 12, 1950, filed its answer to the petition for subpoena duces tecum. The answer challenges the availability of a subpoena duces tecum to secure the information requested, as well as the relevancy of the matters requested. It admits that it agreed to produce "books, papers, and records" but denies that the requested data are "books, papers, and records."

[1, 2] What complainant seeks to have produced are financial and cost statements which as such are not shown or averred to be part of the books or records of respondent. The individual data which are to go into exhibits or statements probably exist in the books and records of the company and, if such books and records were produced, could be found by an examination thereof.

A subpoena duces tecum may be secured to compel production of specific and pertinent records, books, or papers. It is not a proper method to secure material requiring special preparation.

In Whiterock Quarries v. Baltimore & O. R. Co. (1949) C.D. 14494, this Commission denied a subpoena duces tecum where complainant requested, inter alia, that respondent company be required to produce certain information in exhibit form, which exhibit was not a part of the books, records, and papers of the company, but would of necessity have had to be prepared therefrom.

We are of the opinion that the data requested to be produced is not encompassed within the ordinary meaning of "books, papers, and records," which are properly the subject of a subpoena duces tecum.

2B of General Instructions contained in the Uniform System of Accounts applicable to respondent company defines "Books and Records" as follows:

"The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, stock books, reports, correspondence, memoranda, etc., which may be useful in developing the history of, or facts regarding, any transaction."

The definition clearly reveals an intention that "books and records" shall not be given a narrow and restricted meaning. It does not indicate, however, any intention to include within said phrase any data of the nature requested in the instant petition, exhibits and statements to be prepared by respondent company containing material to be found in the "books and records" of the company. Although the definition is broad, the subject matter to be considered is limited to "all other records . . . useful in developing the history of, or facts regarding, any transaction."

Transaction is ordinarily defined as an occurrence in an enterprise which requires recognition in the accounts. It may be a purchase, a sale, a receipt of cash, or a payment of cash. It may be a more involved occurrence, such as recognition of decline in value of an asset, or simple decision that a particular item would be better shown under another account, thus requiring a mere transfer of an amount between two accounts. All pertinent information regarding any such given transaction might well be encompassed within the

meaning of "books, records, and papers."

The subject matter which complainant requests does not fall within the aforesaid definition. Complainant seeks by its petition to compel production of information in exhibit form which represents not the facts regarding a transaction, but rather a multitude of "transactions." These exhibits, while reflecting nothing more than data otherwise appearing in the books and records of the respondent company, will be statements not contained therein. Production of the requested data cannot properly be required by a subpoena duces tecum;

Therefore,

It is *ordered:* That the petition for subpoena duces tecum be and the same is hereby denied.

Commissioner Conly voted in the negative.

WISCONSIN PUBLIC SERVICE COMMISSION

Re Jerpen-Valders Telephone Company

2-U-3209
March 6, 1950

APPLICATION *by telephone company for authority to increase rates; modified rate increase authorized.*

Expenses, § 140 — Amortization of PBX Board — Small telephone utility.

1. A small telephone utility may reasonably amortize its investment in a PBX board over a shorter period of time than the normal life of the board where the utility has only one subscriber requiring such a board and, consequently, would not have the opportunity to install it on the premises of other subscribers if it should become obsolete before the termination of its normal life, p. 29.

Return, § 111 — Telephone company.

2. Exchange rates yielding an annual profit of approximately $1,125 to a telephone company whose net book value plus allowance for cash working capital and materials and supplies was $35,160 were considered reasonable and lawful, p. 29.

By the COMMISSION: The Jerpen-Valders Telephone Company, Valders, Manitowoc County, on November 18, 1949, filed an application with the Commission for authority to increase certain exchange rates and to establish a new rate for PBX service to the Salvatorian Fathers Seminary.

APPEARANCES: Jerpen-Valders Telephone Company, by E. R. Woodcock, President, Thomas Larson, Treasurer, and Fred Cy, Director; Lyle Hanson, and Albert Hanson, linemen.

The applicant furnishes telephone service to subscribers in Valders and

St. Nazianz, Manitowoc county, and the rural area contiguous to each community. The switchboard at Valders is of the magneto type and the St. Nazianz switchboard is automatic. Applicant was authorized on May 31, 1949, to purchase the Quarry Riverside Telephone Company serving approximately 157 subscribers. The total number of subscribers now served is 721. A PBX switchboard installed in the Seminary of the Salvatorian Fathers at St. Nazianz in the spring of 1940 became inadequate because of growth in the size of the institution and a new automatic switchboard was installed on July 1, 1949. As a result of these changes, net additions to plant in 1949 amounted to approximately $15,173. The present and proposed rates for the principal classes of service are:

	Net Monthly Rates	
	Present	Proposed
Urban Service		
Business		
One-party	$2.50	$2.75
Two-party	2.25	2.50
Four-party	....	2.25
Residence		
One-party	2.25	2.50
Two-party	....	2.25
Four-party	2.00	2.00
Six-party	1.75	1.75
Rural Multi-party Service		
Business	2.25	2.00
Residence	1.75	1.75
Miscellaneous Rates		
Extension bells		
Small	.20	.25
Large	.34	.35
Common battery service (Valders only)	.25	.25
Extension telephones	.67	.75

[1] Applicant proposes to establish a 4-party business rate and a 2-party residence rate. In order to establish the proper differentials between the rates, it is necessary to increase the one-and 2-party business rates and the one-party residence rates 25 cents per month. The suggested multiparty business rate of $2 per month is 25 cents less than the present rural multiparty business rate. Applicant also desires to increase the extension bell and extension telephone rates by a small amount. The former switchboard in the seminary cost $956.50 and served approximately 16 stations. The new switchboard cost $8,202.46 and serves 42 stations. It is noted that because of the increase in the price of automatic PBX switchboards and the larger size required, investment is approximately eight times as large, whereas the number of stations connected represent an increase of approximately two and one half times the original number. The applicant suggests that the Commission set up a rate similar to the rate filed for the original board. This rate provided a charge to cover the operating expenses and amortization of the cost of the board over a 5-year period with a provision that the rate would be adjusted at the end of the period. It is noted that the original switchboard was used for approximately nine years and that the new switchboard has room for 50 additional lines. The Commission considers it reasonable to amortize the investment in the PBX board over a shorter period of time than its normal life because the Jerpen-Valders Telephone Company is a small telephone utility with only one such subscriber, and if the switchboard becomes obsolete before the termination of its normal life the company will not have the opportunity to install it on the premises of other subscribers such as would a large utility.

[2] The book cost of property and plant in service as of December 31,

1949, is $55,612, the accrued book depreciation amounts to $23,252, the net book value rate base with an allowance of $2,800 for working capital and materials and supplies is $35,160. The applicant submitted a profit and loss statement for the year ended December 31, 1949. This statement has been adjusted to exclude Federal excise taxes included in both revenues and expenses and the individual items of expense have been rearranged. The adjusted income account for the year ended December 31, 1949, and the pro forma income account which includes revenues under rates authorized herein and increases in wages are shown below:

	12/31/48	Net Additions	12/31/49	Pro Forma
	Plant in Service			
Land	$1,200	$700	$1,900	$1,900
Buildings	4,153	570	4,723	4,723
Central office equipment	9,825	5,045	14,870	14,870
Exchange lines	14,245	6,177	20,422	20,422
Station equipment	9,112	2,681	11,793	11,793
General office equipment	470	....	470	470
Vehicles	1,434	....	1,434	1,434
Total	$40,439	$15,173	$55,612	$55,612
Depreciation reserve	20,696	2,556	23,252	23,252
	Income Account			
Operating Revenues:				
Subscriber's stations	$8,807		$16,224	$18,518
Toll service	7,107		7,592	7,600
Miscellaneous	71		290	200
Total revenues	$15,985		$24,106	$26,318
Operating Expenses:				
Repair labor	3,299		4,211	6,185
Repair materials and supplies	1,290		2,045	2,045
Operator's wages	4,221		7,049	8,156
General officers' salaries	847		923	923
Other general expense	2,175		2,622	2,622
Total above	$11,832		$16,850	$19,931
Depreciation expense	2,012		2,557	2,780[1]
Taxes other than income	650		2,030	2,142
Income taxes	349		604	340
Total operating expenses	$14,843		$22,041	$25,193
Utility Operating Income	$1,140		$2,065	$1,125

[1] Estimated as 3½ per cent gross plant in service.

The proposed rate for multiparty business service of $2 net per month does not provide for a proper differential between it and the residence multiparty rate. The Commission will authorize a rate of $2.25 net per month for business multiparty service. The estimated pro-forma income of $1,125 represents a 3.2 per cent return on the net book value rate base shown above.

The Commission finds:

1. That the present rates of the Jerpen-Valders Telephone Company are unreasonable because of inadequacy.

2. That the net book value of property and plant in service plus an allowance for cash working capital and materials and supplies is $35,160.

3. That the exchange rates authorized herein will produce a profit of approximately $1,125 and will not result in a rate of return in excess of a reasonable rate of return on the rate base found above and said rates are reasonable and lawful.

The Commission concludes:

That an order authorizing the rates as found herein be issued.

ORDER

It is therefore *Ordered*:

1. That the Jerpen-Valders Telephone Company withdraw its present schedule of exchange rates and substitute therefor effective the first billing date following date of this order the exchange rates in the appendix attached hereto and made a part hereof. [Appendix omitted herein.]

PENNSYLVANIA PUBLIC UTILITY COMMISSION

City of Scranton

v.

Scranton Electric Company

Complaint Docket No. 14764
February 6, 1950

MOTION *by electric utility to dismiss city's complaint against new rate schedule; granted.*

Rates, § 647 — Complaint against proposed utility rates — Sufficiency.
A municipality's complaint against a proposed schedule of electric rates should be dismissed if it fails to set forth any act or thing done or omitted to be done by the utility in violation of the Public Utility Law or of any regulation or order of the Commission.

By the COMMISSION: Scranton Electric Company, respondent, on July 1, 1949, filed with this Commission new tariffs and schedule of rates for electric service to become effective September 1, 1949. The city of Scranton, on August 22, 1949, filed its "Petition and Complaint," wherein it set forth that it is a city of the Second Class A; that electric service is furnished to the city by Scranton Electric Company; and the name and address of its attorney. The prayer of the petition which followed immediately was that hearings be held on the application for the proposed increase of rates prior to their effective date; that said proposed rates be suspended

until after hearing, and, that hearings be held in the city of Scranton.

Respondent company was duly notified of the filing of the complaint, and on September 2, 1949, it filed its answer admitting the three averments of fact contained in the complaint, and for further answer averred that the rates intended to become effective September 1st are in all respects fully justified, and fair, just, and reasonable. A copy of said answer was served upon the city solicitor on September 1, 1949.

Respondent, on December 30, 1949, filed with this Commission its motion to dismiss the complaint, averring that the complaint was defective in that it failed to set forth any act or thing done or omitted to be done by respondent in violation of any law or regulation or order of this Commission and that the prayer of the complaint was for suspension of the proposed rates and institution of an investigation by the Commission. This motion is now before us for disposition.

Section 1001 of the Public Utility Law, 66 PS § 1391, provides:

"Complaints.—The Commission, or any person, corporation, or municipal corporation, having an interest in the subject matter, or any public utility concerned, may complain in writing setting forth any act or thing done or omitted to be done by any public utility in violation, or claimed violation, of any law which the Commission has jurisdiction to administer, or of any regulation or order of the Commission. . . ."

This provision of the Public Utility Law has been interpreted by the Commission several times, and only recently the Commission sustained motions to dismiss the complaints in similar situations, both of which were stronger cases than the one now before us. (Wasserman v. Philadelphia Electric Co. [1949] C.D. 14637 and Hummelstown v Hummelstown Water Supply Co. [1949] C.D. 14694.)

The instant complaint does not set forth any act or thing done or omitted to be done by the respondent in violation, or claimed violation of the Public Utility Law, or of any regulation or order of the Commission.

We are unable to find any averment contained in the recitation of facts or in the respective portions of the prayer for relief from which we could reasonably conclude that there was compliance with the statute; therefore,

It is *ordered:* That the motion to dismiss complaint be allowed.

Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.

Device Controls Timing of Operations of Screens, Pumps

A NEW device designed to reduce the burden of footwork and the risk of human error in operating the screens and pumps in power plants was announced recently by the Midwest Automatic Control Company, 510 Third street, Des Moines, Iowa.

Called the "Midwest Automatic Timer," the device controls the timing of operations of screens and pumps by means of an automatic rotor timer and an integrated system of wire terminals and controls enclosed in a single cabinet.

One person at a single point can thus control the operations of machinery at several points in one or several buildings, Harry R. Frankle, president of the company, explained. According to the manufacturer, the automatic timer is already in use, successfully, in several plants.

EEI Publishes New Metermen's Handbook

THE Edison Electric Institute announces the publication of the sixth edition of the "Electrical Metermen's Handbook." The new edition, the first since 1940, has been considerably enlarged, rewritten, and revised, and reflects the many changes in metering design and practice that have taken place since the appearance of the last edition.

The new edition carries two new sections—one dealing with special metering, and the other covering demand meters. There is also an appendix, containing material from the fourth edition of 1923 showing the essential data for the servicing of older meters still in general use. As in past editions, the new handbook contains complete tables of constants and register ratio data, diagrams for meter installation and testing, and numerous photographs illustrating meters, the meter shop, and laboratory.

Westinghouse Publishes New Edition of Silent Sentinels

A NEWLY-REVISED edition of "Silent Sentinels," a 236-page reference book devoted to protective relays, has been published by the Westinghouse Electric Corporation. The first to be issued since 1940, this latest edition records the growth of the relay art to date, including the most recent developments in the design and application of protective relays and relaying systems.

The book is divided into two parts; the first dealing with the application of protective relays, and the second with the equipment itself.

Copies can be obtained by writing the Westinghouse Electric Corporation, P. O. Box 2099, Pittsburgh 30, Pa. In quantities up to 19 copies, a price of $3 each has been established, while if 20 or more are ordered, each sells for $2.70.

New Annunciator Bulletin

THE AUTOCALL COMPANY, Shelby, Ohio, has issued a four-page bulletin illustrating and describing the function and construction of their type "ANG" Annunciators for use in control panels, control desks, etc., in public utilities and industries.

The "ANG" uses 1 x 1" translucent plastic windows engraved with numerals or letters, and actual size illustrations of the windows with two different styles of engraving are presented in this new bulletin. Also included is a schedule showing dimensions of this Annunci-

ator with from one window up to four hundred. In addition, illustrations of typical conditions and occurrences which may be indicated by the "ANG" are presented.

Copies of this new folder may be obtained from the manufacturer.

1952 Lighting Exposition to Be Held in Cleveland

PLANS for the 4th International Lighting Exposition and Conference to be held in Cleveland, May 6-9, 1952, were officially approved by the Industrial and Commercial Lighting Equipment Section of the National Electrical Manufacturers Association at a recent meeting in Chicago, it was announced by B. D. Levaur, section chairman.

The Planned Lighting Merit Award Competitions which have been major attractions at previous Lighting Expositions again will be held. Booklets containing the official rules and regulations will be available at a later date.

Bennett Named Vice President Of National Elec. Prod.

ROBERT C. BENNETT, JR., has been named vice president and sales manager of National Electric Products Corporation, Pittsburgh, according to an announcement by W. C. Robinson, Jr., vice president in charge of sales. Mr. Bennett was also named a member of the company's board of directors. He has taken over the responsibilities of Harold J. Newton, recently retired.

Plant Lighting Guide Shows How to Cut Production Costs

A NEW, concise, 32-page planned lighting guide, covering the latest concepts of planned lighting, the benefits to be gained, and the methods to employ to put a planned lighting program into effect, has been published by Benjamin Electric Mfg. Company, Des Plaines, Illinois. Entitled, "A Planning Guide to Improved Plant Lighting," copies of the brochure are available without cost to all those concerned with industrial lighting.

General Electric Unveils Its More Power to America Special

THE GENERAL ELECTRIC COMPANY unveiled its More Power to America Special, the biggest electrical display kit ever built, in Grand Central Terminal, New York city, April 24th.

Almost a quarter-mile long, the 10-car exhibit train represents the first attempt to display, in one series of related exhibits, the complete range of products for the production, distribution, and industrial utilization of electric power.

Believed to be unique in industrial marketing history, the silver streamliner is filled with exhibits of more than 2,000 of the most modern electric products, systems, and techniques.

The "Special," launched on the rails by the company's Apparatus Department, was in New York on the first lap of a nationwide tour. It will visit approximately 150 key industrial centers during 1950 and 1951.

At each stop on its tour, the exhibit train will be inspected by invited representatives of electric utilities, the manufacturing and transportation industries, the armed services, the federal government, and municipalities.

Exhibits in the "Special" are grouped in 11 major sections: Power Generation, Transmission, and Distribution; Drives and Controls; Materials Handling; Welding; Industrial Heating; Renewal Parts; Industrial Lighting; Components for Industry; Measurements; Civic Improvement; and National Security.

Arrayed throughout the train are displays covering the complete range of apparatus for industry. Individual exhibits—many of them operating—cover such equipment as turbines, substations, transmission equipment, motors of all sizes and ratings, complex drive systems, industrial and street lighting fixtures, precise instruments, welding and heating equipment, diesel-electric switchers, controls, urban transit and railroad equipment.

Still others relate to atomic power, weather research, guided rockets, aircraft jet engines, ultrasonics, ship propulsion equipment, fire control systems, and "snow-making" techniques.

Dunn Elected Director of Noma

THE election of Cecil M. Dunn as a director of Noma Electric Corporation has been announced by Henri Sadacca, president.

Mr. Dunn, vice president and general manager of the Estate Heatrola Division of the corporation, has been associated with Estate for twenty years.

Hagan Issues Bulletin

THE Hagan Meter Type Differential Master Sender, a pneumatic machine used as the metering element in the measurement and control of steam, gas and liquid flow, liquid level, pressure differential and similar applications, is described and illustrated in bulletin 2150 just issued by Hagan Corporation, 323 Fourth avenue, Pittsburgh, Pennsylvania.

The Master Sender is characterized by in-


CLEVELANDS
ARE Profit-Protectors
Your CLEVELAND TRENCHERS protect your profits by protecting your estimates and schedules. Every CLEVELAND gives you more work—more different kinds of work—during more months of the year—with less costly down-time for repair and maintenance. With CLEVELANDS your trench is "On Time—Everytime". Check with the nearest utility or municipality that has standardized on CLEVELANDS. See your local distributor for the full story or write direct.
THE CLEVELAND TRENCHER CO.
20100 ST. CLAIR AVENUE • CLEVELAND 17, OHIO

stantaneous response to all changes in applied differential and provides precise measurement over a continuous range from 50″ water column to 150 p.s.i. at static pressures up to 2500 p.s.i.

Liquid-Form Inhibitor Adds to Life of Transformer Oils

FIRST commercial production of a new liquid-form inhibitor which increases life of transformer insulating oils up to 14-fold by deterring sludge formation, has been announced by the Chemical Division of Koppers Company, Inc.

G. W. Naylor, manager of the Chemical Development Section of Koppers, said that the inhibitor, known as Koppers Impruvol 20, is being made available in quantity to the electrical industry following a series of exhaustive tests under actual operating conditions and in the laboratory.

Booklet Offers Inexpensive "Custom-Built" Files

How to design and build "custom-made" files at the low cost afforded by standardized, mass-produced equipment is the subject of an informative new booklet just published by Remington Rand Inc.

According to the manufacturer, through the use of Record-Stack, an assortment of intermembered, interchangeable file cabinets which house interchangeable file sections of many types and sizes, virtually any kind of file installation can be set up to suit any needs.

The 12-page, fully-illustrated brochure shows several of the infinite variations of Record-Stack arrangements which have been used in the offices of leading corporations and governmental agencies.

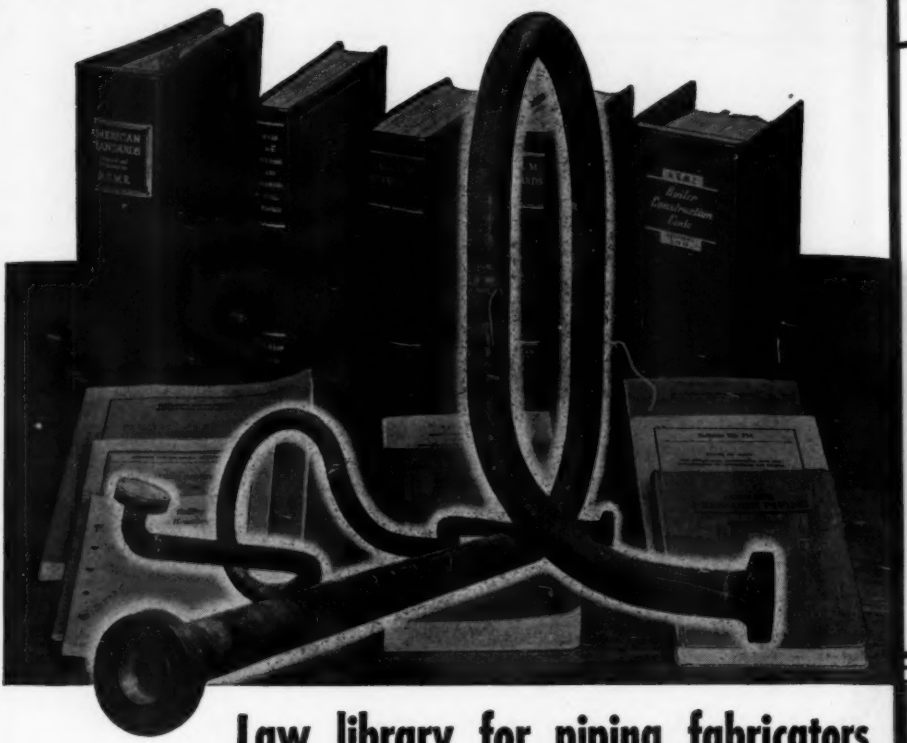
Identified as SC 677, the booklet may be obtained at any Remington Rand branch office, or by writing to the company's home office at 315 Fourth avenue, New York 10, New York.

New Hydraulic Aerial Ladder Offered by Amer. Coach

THE AMERICAN COACH & BODY COMPANY, Cleveland, Ohio, announces a new hydraulic aerial revolving ladder. This ladder is specifically designed for reaching higher working heights than is possible with present manually operated revolving ladders, and for reaching them with less effort to the workman. The ladder can be positioned at any point in an 85° arc, and rotated through a complete 360° circle.

According to the manufacturer, the new ladder, model 35LD20, places a workman on a platform 35 feet (maximum) in the air. Servicing street lights, overhead lines, signs and other overhead work is quickly accomplished. Some companies use the new American hydraulic ladder for attaching pole hardware and stringing lines, reducing pole climbing.

Full details may be obtained from the manufacturer.



Law library for piping fabricators

THE safety of your employees, the welfare of the community and a major investment can depend on a single piece of prefabricated piping. That's what piping codes are for . . . state, national, association and insurance codes. You don't have to know these codes because Grinnell engineers know the "law" intimately, check and cross-check with these codes at every step from preparation of detailed drawings and specifications right through bending, welding, stress relieving, heat treating, testing, final inspection, assembly and test runs.

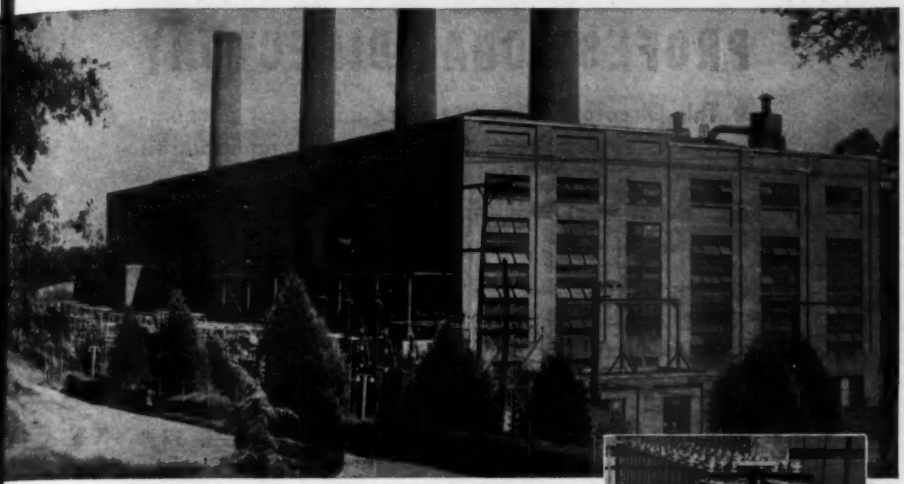
That's just one of the many advantages of having a piping system prefabricated by Grinnell.

The complete "package" includes interpretative engineering, metallurgical research, compliance with code requirements, manufacturing drawings and specifications, production schedules, purchase of materials, specialized facilities, skilled personnel, control of quality and rigid inspection.

You get this complete package from a Grinnell prefabricated piping plant on schedule, ready for field erection, meeting all code requirements and at a real economy.

GRINNELL

Grinnell Company, Inc., Providence 1, R.I. Warehouses: Atlanta • Buffalo • Charlotte • Chicago • Cleveland • Cranston • Fresno • Kansas City • Houston • Long Beach • Los Angeles • Milwaukee • Minneapolis • New York • Oakland • Philadelphia • Pocatello • Sacramento • St. Louis • St. Paul • San Francisco • Seattle • Spokane



South Carolina Electric & Gas Company's modern steam plant at Parr, S.C.

At this modern station...

Exide-Manchex Batteries

At the Parr, S.C. plant of the South Carolina Electric & Gas Company, positive switchgear operation is assured by the use of Exide-Manchex Batteries. They are used to operate the 132,000-volt, 600-ampere circuit breakers and to take on an intermittent load of 25 to 40 amperes required for slag removal equipment.

You can always count on Exide-Manchex for proved dependability, long life and low cost maintenance. Important among its many features are:

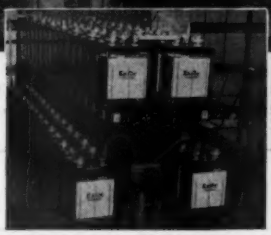
- the famous manchester positive plate with its *exclusive* lead button construction.
- slotted plastic separators, impervious to chemical and electrical reaction.
- plastic spacers that maintain plate alignment.
- the latest development in molded glass jars.
- heavy terminal posts with copper inserts for extra conductivity.

Use the Exide-Manchex for all your stationary battery applications in central and sub-station service.

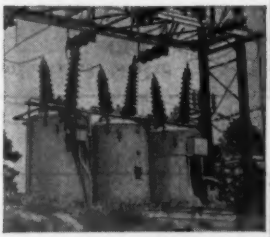
THE ELECTRIC STORAGE BATTERY COMPANY
Philadelphia 32
Exide Batteries of Canada, Limited, Toronto

"Exide" and "Manchex" *Reg. Trade-marks U. S. Pat. Off.*

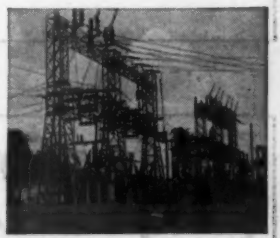
1888...DEPENDABLE BATTERIES FOR 62 YEARS...1950



60-cell Exide-Manchex switchgear control battery, EME-13, mounted on two, 2-step racks.



132,000-volt, 600-ampere oil circuit breaker, operated by Exide-Manchex Batteries.



A part of the 114 K.V. Switchyard showing three bays of high voltage switchgear.

PROFESSIONAL DIRECTORY

• This Directory is reserved for engineers, accountants, rate experts, consultants, and others equipped to serve utilities in all matters relating to rate questions, appraisals, valuations, special reports, investigations, financing, design, and construction.

PROFESSIONAL DIRECTORY (*continued*)

(*Professional Directory Continued on Next Page*)

PROFESSIONAL DIRECTORY (*continued*)

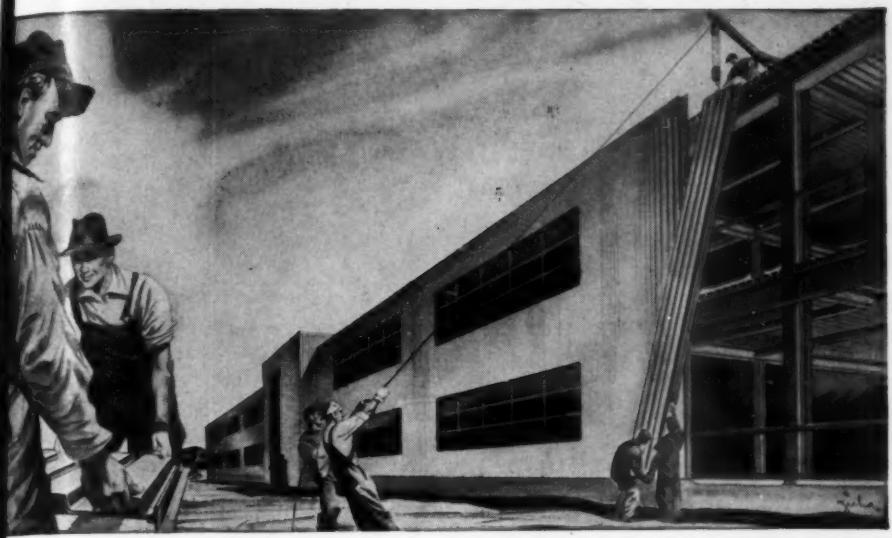
PROFESSIONAL DIRECTORY (concluded)

INDEX TO ADVERTISERS

[The Fortnightly lists below the advertisers in this issue for ready reference. Their products and services cover a wide range of utility needs.]

*Fortnightly advertisers not in this issue.

What we really make is time!



It's faster to hang a wall than to pile it up . . .

Little blocks, say 2" x 4" x 8", don't pile up very fast.

We hang walls up in sizable panels.

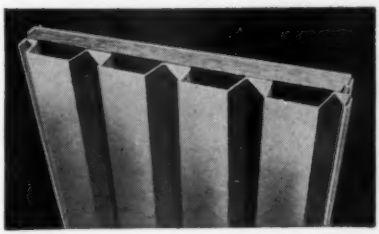
And that is an easy way to understand why Robertson's real product is *time.*

We make walls that are hung in place. We make them complete with insulation when the panels are delivered. We engineer them piece by piece in advance at the factory. We put expert crews on the job to place them.

We make time, now, when time is the essence.

We save days and weeks in finishing a building for *use,* because years have been put into the development of these unique skills.

Quick is the word we practice.



Q-Panels are fabricated from Galbestos, aluminum, stainless steel, galvanized and black steel in lengths up to 25'.

Q-Panels, 3" in depth with 1⅛" of incombustible insulation, have a thermal insulation value superior to that of a 12" dry masonry wall with firred plaster interior. A single Q-Panel with an area of 50 sq. ft. can be erected in nine minutes with a crew of only five men, and twenty-five workmen have erected as much as an acre of wall in three days.

Q-Panel construction is quick, dry, clean, and offers an interesting medium of architectural expression.

H. H. ROBERTSON CO., PITTSBURGH, PA.

2424 Farmers Bank Building
Pittsburgh 22, Pennsylvania

Offices in 50 Principal Cities
World-Wide Building Service

THERE'S A BIG DIFFERE
IN LIGHT TRUCKS

—AND HERE'S TH ROOF

TRUCK BUYER'S GUIDE
½ TO 2 TONS

How leading makes of trucks compare in twelve major features that insure greater dependability, longer life and lower maintenance.

FEATURES	GMC TRUCK	TRUCK "A"	TRUCK "B"	TRUCK "C"	TRUCK "D"
Power and efficiency of VALVE-IN-HEAD ENGINE	YES	YES	NO	NO	YES
TOP HORSEPOWER in normal operating range	YES	NO	NO	NO	YES
LEADS in USABLE TORQUE	YES	NO	NO	NO	NO
FULL-PRESSURE LUBRICATION of all main bearings and piston pins	YES	NO	NO	NO	YES
SYNCHRO-MESH TRANSMISSION with Cushion Ring Clutch	YES	YES	[illegible]	YES	YES
Heavy-Duty Rear-mounting BALL-BEARING STEERING GEAR	YES	YES	NO	NO	NO
SEPARATELY MOUNTED RADIATOR, GRILLE AND RADIATOR for convenient repair	YES	NO	NO	NO	NO
TORSIONAL DAMPENER for engine smoothness	YES	YES	YES	NO	YES
BUILT-IN RADIATOR EXPANSION TANK—prevents coolant loss	YES	NO	NO	NO	NO
DOUBLE-WRAPPED FRONT SPRING EYES for front axle stability	YES	YES	[illegible]	NO	NO
TOCCO-HARDENED CRANKSHAFT Dynamically balanced	YES	NO	NO	NO	NO
STEEL-BACKED AIRPLANE TYPE MAIN AND ROD BEARINGS	YES	NO	NO	NO	NO

COMPARE the [illegible] return-per[illegible] you get only [illegible] and you'll [illegible] they deliver [illegible] with lowe[illegible] and repair [illegible] reel trucks [illegible] from bumper [illegible] for yourself—[illegible] from your GMC [illegible] GMC TRUCK & [illegible] *General Motors Products, Inc.*

GMC

GASOLINE & DIESEL TRUC

½ TON TO 10 TONS

YOUR KEY TO GREATER HAULING PROFITS